STATE REQUESTS FOR GOOD FAITH WAIVERS OF FISCAL DISALLOWANCES FOR ERRONEOUS PAYMENTS IN THE AFDC PROGRAM FOR FISCAL YEAR 1981

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

TESTIMONY OF JO ANNE B. ROSS, ASSOCIATE COMMISSIONER FOR FAMILY ASSISTANCE, SOCIAL SECURITY ADMINISTRATION, AND JOHN O'SHAUGHNESSY, ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES

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STATE REQUESTS FOR GOOD FAITH WAIVERS OF FISCAL DISALLOWANCES FOR ERRONEOUS PAYMENTS IN THE AFDC PROGRAM FOR FISCAL YEAR 1981

THURSDAY, APRIL 25, 1985

House of Representatives,
Committee on Ways and Means,
Subcommittee on Public Assistance
and Unemployment Compensation,
Washington, DC.

The subcommittee met at 10 a.m., in room B-318, Rayburn House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[For immediate release, Tuesday, April 16, 1985]

The Honorable Harold Ford (D., Tenn.), Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, Announces a Public Hearing on State Requests for "Good Faith" Waivers of Fiscal Disallowances for Erroneous Payments in the Aid to Families With Dependent Children (AFDC) Program for Fiscal Year 1981

The Honorable Harold Ford (D., Tenn.), Chairman, Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, announced today that a public hearing on State requests for "good faith" waivers of fiscal disallowances for erroneous payments in the Aid to Families With Dependent Children (AFDC) program for Fiscal Year 1981 will be held on Thursday, April 25, 1985, beginning at 10:00 a.m., in room H-137 of the Capitol.

Testimony will be heard from invited witnesses. Witnesses from the Department of Health and Human Services and the Office of Management and Budget will be invited to appear to discuss the status of the State waiver requests for fiscal year 1981 disallowances. Witnesses will be asked to discuss the criteria used by the Department of Health and Human Services in reviewing waiver requests, the role of the Office of Management and Budget in the decision making process and the timeliness of the waiver decisions.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Interested persons wishing to submit a written statement for the record of the printed hearing should submit at least six (6) copies of their statements by the close of business, Friday, May 3, 1985, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 75 additional copies for this purpose to the full Committee office before the hearing begins.

Chairman **Ford**. The Subcommittee on Public Assistance and Unemployment Compensation will come to order.

The subcommittee is convened today to hear from the Department of Health and Human Services. The subcommittee originally made a request that a representative of the Office of Management and Budget appear and testify before the committee today, along with HHS, on State requests for good faith waivers of fiscal disallowances of Aid to Families with Dependent Children Program for fiscal year 1981. We do have with us today Ms. Jo Anne Ross, who is with the U.S. Department of Health and Human Services, Associate Commissioner for Family Assistance, Social Security Administration.

We are delighted to have you come before the subcommittee. The subcommittee has waited generously for sometime now for a response from the Department of Health and Human Services as it relates to legislation that is pending before this subcommittee by Mr. Matsui of California, as well as information we hope we can receive today from the Department of Health and Human Services.

In March of 1983 the Department of Health and Human Services announced the 1981 AFDC error rates and States were told that they are potentially liable for $74 million in fiscal sanctions because their 1981 error rates were too high. In May 1983 all 28 States sought a waiver of these penalties and sought that waiver from the Department of Health and Human Services. Nearly 2 years later the Secretary still has not replied to the waiver requests. For sometime now the States have come to us charging that the current quality control system used to measure error rates is somewhat inaccurate, unfair, and too slow to really be useful to the managers of the AFDC Program. Even the biggest skeptic would have to wonder about the usefulness of penalizing States in 1985 for errors they made in fiscal year 1981.

At the very least, it is time for these decisions to be announced so the Federal Government and States can get on with the business of running the Aid to Families with Dependent Children Program.

Today, I am pleased to welcome the Associate Commissioner of the Health and Human Services Office for Family Assistance, and I hope Ms. Ross will be able to answer four simple questions.

First, when will the Secretary announce her decision on the 1981 waiver request?

Second, why has the waiver review process taken so long?

Third, what is the role of the Office of Management and Budget in this process?

Fourth, what will HHS do to ensure that such a long delay does not occur in the near future.

It is my hope that today's hearing will help us to get the quality control process moving once again, and maybe legislation hopefully from this subcommittee. Congress, the Federal and State governments and the American taxpayers all want the same thing—a well administered AFDC Program that aids only those who are eligible for the benefits.

Once again, we are delighted to have you before the subcommittee today, Ms. Ross, and I understand that you do have some fruitful information from the Secretary. Hopefully we can take that information with other questions that you will respond to the panel on and maybe move us in the right direction and have certain things cleared up in certain responses from your office, as well as the Office of Management and Budget. As soon as we have completed the remarks, I would like to recognize Mr. Campbell.

Mr. CAMPBELL. Thank you very much, Mr. Chairman. I would like to welcome Ms. Jo Anne Ross today and John O'Shaughnessy, Assistant Secretary for Management and Budget. I want to thank you for holding this hearing on the delay of the announcement of fiscal sanctions that are being imposed for erroneous payments made under AFDC. During our organizational meeting I requested that a letter be sent to the Secretary of HHS requesting information about the delay and the announcement of the 1981 decision. I am disappointed that we have not as yet received an explanation for the reasons for that delay. I hope that Ms. Ross will enlighten us on this matter today. Because of the pending fiscal sanctions and the legislation that Mr. Matsui has introduced, there has been a great deal of interest in the subject and we have heard from many governors concerning their States and the need for the reform in the quality control system.

We have asked the States to improve their performances and strive for a higher accuracy rate. Obviously, some have done better than others. Some have made great strides, some have not done so well, but it is extremely difficult for program people in the States to take corrective action using data that are over 5 years old. It is also difficult to legislate when the Secretary does not announce a decision on the 1981 sanctions. We are here seeking answers to the questions posed by Chairman Ford. I, too, would like to have those answers, and I am very interested in hearing from you. We welcome you today.

Chairman FORD. Mr. Matsui.

Mr. MATSUI. Well, Mr. Chairman, I would merely like to adopt and reiterate both your statement and Mr. Campbell's statement. I think they are very well taken. I appreciate and want to commend you for calling these hearings today. Last October we did hold hearings on the issue of quality control generally, and also the waiver issue. We had not made any commitments at that time, but we had some idea that we would have the waiver information by the end of last year, some 4 months later. We probably will get the information today, but I do appreciate both your holding these hearings and, of course, Mr. Campbell's attitude on this issue as well.

Chairman FORD. Ms. Ross, the Chair will recognize you at this time.

STATEMENT OF JO ANNE B. ROSS, ASSOCIATE COMMISSIONER FOR FAMILY ASSISTANCE, SOCIAL SECURITY ADMINISTRATION, ACCOMPANIED BY JOHN O'SHAUGHNESSY, ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Ms. ROSS. Thank you, Mr. Chairman. I am pleased to respond to the request of the committee to appear today.

I have with me, as Mr. Campbell has already indicated, John O'Shaughnessy, Assistant Secretary for Management and Budget I think we all agree that erroneous payments threaten the integrity of the AFDC Program. They undermine public confidence, and they divert resources from those for whom they were intended. Understanding the importance of this problem, Congress limited Federal matching funds for erroneous payments; 1981 was the first year this statutory requirement took effect.

I understand the concerns some of you have expressed about the time it has taken to issue decisions on State requests to waive these QC disallowances for fiscal year 1981. I will discuss the Secretary's decision in a moment, but first I want to discuss the criteria used to evaluate these requests, the process we established for the evaluation, and some factors which complicated this process.

The Michel amendment established maximum error tolerance rates for each State. Erroneous payments above that level do not qualify for Federal matching funds. At the same time, the Michel amendment provides authority for the Secretary to grant waivers of the disallowances in certain limited circumstances. While the Secretary was given the authority to make waiver decisions, Congress has made it very clear in a number of instances that waivers are to be granted only under the most extraordinary circumstances.

States which failed to meet their targets were notified in letters which specified the potential disallowance as well as the procedures for requesting waivers.

All 28 States subject to disallowances submitted waiver requests. The Office of Family Assistance conducted an extensive review of all of these requests. I would like to point out the review teams included personnel from both central office and regional offices, and there were multiple levels of review to ensure consistency. The Secretary used the findings of our review in making her decision.

The process for fiscal year 1981 took longer than any of us had envisioned. First, we had to establish the process by which we would evaluate the waiver requests. The system had to be thorough and fair, and had to include safeguards to ensure that each State's request was evaluated under the same standards. We believe that we accomplished these important objectives.

Just as it was the first year for us at the Federal level to establish procedures for the review of waiver requests, it was the first year for States to develop and submit waiver requests. Requests from the 28 States ranged from 69 pages to approximately 59,000 pages.

In order to consider all materials States made available, it was necessary to include every page in the review. Obviously, this was a time-consuming process.

The statute allows the Secretary to reduce the disallowance only where she "determines, in certain limited cases, that States are unable to reach the required reduction in a given year despite a good faith effort." Further, the conferees, in their report, "emphasize that this waiver process is to be limited to extraordinary circumstances."

The implementing regulations outline five examples of limited circumstances under which the Secretary might find that a State did not meet the national standard despite a good faith effort. Because the statute contemplated waivers only in extraordinary circumstances, the burden of proof for showing that a good faith effort was made rests entirely with the State.

Four of the five circumstances cited in the regulations are generally considered beyond the State's control:

Disasters such as fire, flood, or civil disorders which require diversion of significant personnel normally assigned to AFDC administration, or which destroy or delay access to significant records needed for adequate eligibility determinations;

Strikes of State staff or other personnel necessary to determine eligibility or process case changes;

Sudden and unanticipated workload changes which result from changes in Federal law and regulations, or from rapid, unpredictable caseload growth; and

State actions which were a result of incorrect written policy interpretation by a Federal official reasonably assumed to be in a position to provide correct interpretation.

States were notified that requests based on these extraordinary circumstances would be evaluated against four criteria:

The circumstance was extraordinary in nature and beyond the State's control;

The circumstance had an adverse impact on the AFDC Program;

The circumstances had a measurable effect on the State's ability to meet its target error rate; and

Management used appropriate measures to limit the impact of the circumstance and to recover as quickly as possible.

Twenty of the twenty-eight States requesting waivers submitted requests including this type of circumstance. A total of 53 extraordinary circumstances were cited, ranging from the eruption of Mount St. Helens to the influx of Cuban and Haitian refugees.

All four criteria had to be demonstrated for extraordinary circumstance to qualify a State for waiver. None of the 20 requests satisfied all of these requirements. For example, some States were able to document that a circumstance was extraordinary and beyond their control, but they didn't show the impact on the program and the error rate. In other cases, program impact was documented, but appropriate corrective actions weren't demonstrated.

Of the 20 States citing extraordinary circumstances in their waiver requests, only one relied solely upon these circumstances. The other 19 States also requested a waiver based on a fifth circumstance cited in the regulation—the timely development and implementation of a corrective action plan reasonably designed to meet the target error rate. Eight States based waiver requests solely on this last factor.

States' requests for waivers based on corrective action plans were evaluated on the basis of four indicators. Again, States were given information on each of the factors to be considered:

Demonstrated commitment by top management;

Sufficiency and quality of systems, either manual or automated, for analysis of quality control and related data; and

Management and execution of the corrective action process.

In other words, the simple existence of a corrective action plan was not considered sufficient documentation of the required good faith effort to reduce errors.

For example, in the category of top management commitment, we sought evidence that corrective action goals were clearly stated as agency policy. But we were also looking for evidence of sufficient numbers of qualified personnel, action taken to ensure that policies and procedures were followed, and management accountability for decisions made in the corrective action process.

In evaluating the sufficiency and quality of systems designed to reduce errors, we were looking not only for the existence of such systems, but also for documentation showing that the systems were used effectively by the appropriate personnel.

Similarly, we were looking not only for systems and procedures for collecting quality control and related data, but also for evidence that the data was thoroughly analyzed for use in corrective action efforts.

In the area of management and execution of the corrective action process, we were looking for a relationship between planned corrective actions and staff to carry them out, county or local agency involvement in corrective action planning and implementation, and sufficient monitoring.

I would like to point out that, in our review of the waiver requests, none of the activities we looked for were new requirements. All are basic to effective corrective action efforts. Many of the actions we considered as evidence of a good faith effort are in fact required by regulation. In essence, we were asking the States for evidence that they were effectively meeting their existing corrective action obligations. In addition to evaluating States' corrective action plans based on criteria outlined above, in evaluating good faith, we also took into account the progress made by the States in meeting their target error rates.

We've already seen the quality control system is working. States receive continual feedback as to the effectiveness of their corrective action activities, and State error rates are continuing to drop.

At the beginning of my statement today, I said we developed the review procedure for waiver requests with the objective of creating a process which would be fair and consistent. We believe we have achieved this goal.

Based on the results of the AFDC review process, the Secretary has decided to grant 6 States waivers of their potential disallowances for fiscal year 1981. The Secretary found that it would not be appropriate to grant waivers for the other 22 States.

The Secretary's decision results in a waiver of $4.3 million out of a total potential disallowance of $73.5 million which constitutes the amount of erroneous payments made above the congressionally established target error rates for fiscal year 1981. It's important to recognize that the entire $73.5 million represented only 8 percent of total erroneous expenditures for fiscal year 1981. In that year alone, nearly $1 billion in AFDC benefits was misspent.

In that context, I'd like to conclude by talking for a moment about the purpose of the quality control system. Our goal is to reduce errors. In 1973, 16.5 percent of all AFDC payments were erroneous—either overpayments or benefits paid to those who were not eligible at all. Error rates of that magnitude clearly are intolerable. They undermine not only the intent of the program, but also public support for the program; and not surprisingly since high error rates waste billions of the taxpayers' dollars.

We have worked long and hard to develop an effective quality control system, and we have succeeded. In 1981 the national error rate came down to 7.6 percent. Had the error rate for that year been 1973's 16.5 percent, the $1 billion we actually spent for erroneous payments would have been $2.1 billion. This improvement is evidence that the quality control system is showing results—results due in large part to the congressionally established target error rates and authority to impose sanctions.

As error rates continue to decline, public confidence in the AFDC Program increases, and resources are better directed to those for whom they were intended. Thus, both recipients and the public at large benefit from our mutual efforts to reduce errors in the program.

That concludes my statement, Mr. Chairman, and I would be pleased today to answer any questions the committee might have.

Chairman FORD. Thank you very much, Ms. Ross. The Chair has several questions it would like to put before you.

Four years ago States measured their error rates in the AFDC Program. I would like to know why has it taken until today for HHS to decide whether to penalize States for errors made in 1981? I know you touched on it, but I just want to go back through a series of questions.

Ms. ROSS. Well, Mr. Chairman, there are two basic issues that I would like to address in the context of that question. One is the time that it takes to generate the error rate to begin with. The generation of an error rate is a fairly lengthy process due in large part to the fact that we have a two-tiered review. State quality control reviewers review the cases first. They review a sample of cases in their State, and they forward the findings of their reviews to the Federal staff, who then reviews a subsample of those quality control cases. If the Federal reviewers should find an error that the State folks do not agree with, that they do not believe is an error, the State is allowed two opportunities to challenge the Federal finding.

One is to request a reconsideration by the Regional Administrator for Family Assistance. After that process is concluded, should the determination be not in favor of the State, but rather to uphold the Federal finding, then the State can request an appeal to the Regional Commissioner of Social Security. That process, to resolve difference cases, what we call the difference process, has added substantially to the time it takes to generate official error rates.

One of the things that we have done in the last year is to adhere to a 28-day limitation for States to file a difference case, and also to apply the same 28-day standard to our staff in terms of responding to the State. I believe in future years we will see the delays caused by difference cases shorten considerably. Once the difference cases are resolved, we can then compute an error rate for an individual State. When we get the information in from all the States, we then compute the error rate, and that takes some time in terms of reconciling the State findings to the Federal findings in the data base and issuing the formal nationwide error rates. So, that is a part of the problem, or has been a part of the problem in the past.

There are a number of other things we are doing, but I will not get into those at this time. Based on the second part of your question, which I think leads to the review process itself, we sent out the letters notifying the States that they had the potential disallowance March 10, 1983. At the time that the States received the letters they were notified that they had 65 days to submit a waiver request to the Federal Government for review. As I indicated, all 28 States subject to disallowance did submit such a request, and we began the lengthy process of reviewing the requests.

We wanted to ensure fair and consistent reviews of the State requests. Because comparability across all States was uppermost in our minds in terms of importance, we had a multilevel review process where we first had a staff-level review of the waiver requests. As I indicated, some of the requests were quite lengthy. I think the average waiver case filled five binders, and we obviously had to read every page to include all the information in our findings.

After the staff completed their review, then a review by the senior staff was conducted to ensure comparability. More specifically, we had three staff-level teams that reviewed the waiver requests from the different States and we had one senior staff team that then looked at all the work done by the three teams to ensure that the findings were comparable across the teams. We also had a number of meetings across those teams in the interim, to ensure that everyone was using the same kinds of standards and approaching it from the same point of view.

After my staff completed their review, then they briefed me to let me know the findings of the review. After that I had to take the review findings to the Commissioner of Social Security with my report, and answer any questions she had in terms of the findings and what was reported to her.

The review findings moved from the Commissioner of Social Security to the Office of the Secretary, since the Secretary was the person designated to make the decision on the waivers. Once the Secretary's office received the reviews, there was a continual dialog of requests for information where we were submitting information to the Secretary's office in order to help her make her decision—information she and members of her immediate staff felt that she needed to have.

We certainly wished that the process had been a faster one ourselves. It would have been nicer for everyone—the Federal staff who did the reviews included. But we do believe that the time we spent was worth it for this first year because we are very comfortable with our results. We believe they are fair and they are consistent.

Chairman **Ford**. It is true that under the Social Security Act the Secretary has the authority to waive all or part of the error rates that we are talking about, is that correct?

Ms. Ross. Yes; that is currently correct.

Chairman **Ford**. And are you saying in your testimony a minute ago that it was the Secretary and her immediate staff who made the final decision on the error rate question?

Ms. Ross. Yes; it absolutely was.

Chairman **Ford**. As I understand it, in June 1984, your office, the Office of Family Assistance, sent its recommendation on the 1981 waiver requests to the Secretary.

Ms. Ross. Mr. Chairman, we did not send recommendations, per se. What we sent were our findings as well as a number of different methodologies that could be used for applying our findings.

Chairman **Ford**. Did you recommend that any waivers would be granted?

Ms. Ross. Again, Mr. Chairman, we did not send recommendations. What we sent were different methodologies and showed the effect of applying the different methodologies. It showed how many waivers would be given under one circumstance, how many under another, and on what criteria that decision would be made. We did not select a methodology and recommend it to the Secretary. We felt very strongly that it was the Secretary's decision to make.

Chairman **Ford**. Did you have any number of States? What was the number of States that you would make—that would have received the waiver under the report that you submitted to the Secretary?

Ms. Ross. Well, again, Mr. Chairman, under the different methodologies that we sent up to the Secretary's office, the number could vary substantially, and I do not recall the precise number of States for any one of those methodologies. We gave her essentially a number of methodologies so she could look at them and determine if she wanted to use any of those, if she wanted to come up with something on her own, or if she wanted to use a portion of one of those methodologies in making her decision.

Chairman **Ford**. Does any of this report reflect the recommendations or findings in your report to the Secretary?

Ms. Ross. Yes; the primary determination in terms of deciding which States would be given a waiver was to look at the scoring that my office conducted. We sent out to the States the list of weights and the factors that they should address in their waiver requests. Based on those weights and factors, we reviewed the documents and scored each State's waiver request. I would be happy to submit the weights and factors for the record if you would like to have them.

Chairman **Ford**. We would like to have a copy for the record.

[The information follows:]

WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	MAXIMUM VALUE
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	30
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20

	MAXIMUM VALUE
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX,IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45
3. Systems Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) (P) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users - Other indicators presented by the State	35

(P) Primary

	MAXIMUM VALUE
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35

(P) Primary

	MAXIMUM VALUE
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15

(P) Primary

MAXIMUM VALUE

Weighting

Factor A subscore _____ x .30 =
B _____ x .20 =
C _____ x .25 =
D _____ x .25 =

Score: _________

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

Ms. Ross. In scoring the States' waiver requests each of the sections of the factors was worth a certain number of points. I would like to point out the weights and factors were based on what is spelled out in the regulations, those things I talked about in my testimony. For example, top management commitment was obviously very important, and it was worth 100 points, and it carried a weight of 30. Thus, the maximum score for top management commitment was 30 points. Weights were applied because we had more than 100 points and we were trying to base the system on 100 points. One of the reasons I feel very good about the results and the decision that the Secretary has made, is that she used those scores that we came up with through our extensive and comprehensive review as a basis for making the decision on the waiver requests. That was the fundamental basis which she used in making the decisions.

Chairman Ford. Well, 2 months ago we were informed, Ms. Ross, that the Secretary had reached a decision on the waivers and the States would be notified shortly. Apparently, let me raise the question, did OMB at this point 2 months ago hold up the notification of the States that the Secretary had made her decision?

Ms. Ross. Mr. Chairman, I would just like to clarify that what happened 2 months ago was as a result of my testimony before this committee in October, I was, of course, keenly aware of your interest in this subject and your desire for a quick decision. I had communicated that to persons in the Department and continued to do so. As a result the Secretary was getting closer to making a decision. She had rejected some methodologies, was refining some others, asking for additional information, and there was a feeling that she was close. I think the call that was made to the Hill was more to advise you that we were making progress, noting that you were very interested in getting something out. The indication that was given that we were expecting a decision very shortly was simply in error. That was not the case.

Chairman Ford. Well, I understand from staff that we were notified that OMB and the Secretary both were negotiating at that particular time.

Ms. Ross. At that time, the Secretary, having reviewed the different methodologies was trying to ensure that she make the best decision that she could possibly make—a fair and consistent decision. She looked at the mathematical analysis that we had done through our scoring and she looked at the methodologies. Further, we have apportionment language in AFDC that requires that waivers that exceed $1 million must be sent to the Office of Management and Budget. So the Secretary did send over to OMB on a preliminary basis information—they were not final decisions from the Secretary—but simply the scores with information similar to what I had sent to the Secretary, that is, the scores as well as what the effect would be of applying those scores according to different methodologies.

Chairman Ford. I understand the Secretary's original decisions on these waivers was that some two-thirds of these States would receive waivers, and I am curious to know what role that OMB played in this decision now that we have received a total of six States with these waivers.

Two-thirds of these States had already been recommended by the Secretary, and we were informed that they were, in fact, negotiating with the Secretary some 2 months ago.

Ms. Ross. Mr. Chairman, I would like to say, having been very involved in the entire decisionmaking process through the Secretary's office until the conclusion, I assure you that the Secretary made no decision prior to this week. And the decision that I am conveying to you now——

Chairman Ford. Is it because OMB had to make the final decision?

Ms. Ross. The final decision was made by the Secretary. Absolutely made by the Secretary. There is no question about that.

Chairman Ford. After the report came back from OMB, is that correct?

Ms. Ross. I would like to clarify one point. When you talk about negotiations with OMB, the discussions that took place between OMB and the Department of Health and Human Services centered largely around the legal question in terms of defining extraordinary circumstances, Mr. Chairman, and we had a lot of discussion among the lawyers in our Department, the lawyers in the Justice Department, and the lawyers of Management and Budget, and they centered around that legal issue.

We had Justice attorneys, OMB attorneys, and HHS attorneys, because the Secretary was very concerned that her decision meet the congressional requirement that waivers would be granted only in extraordinary circumstances, and that was largely what the discussions centered around. In fact, almost totally.

Chairman Ford. I still don't understand OMB's role as it relates to interpreting the law itself. I just don't understand OMB. You are telling us that the Secretary had made a decision, it was sent and negotiated with OMB, it was sent back, the report was sent back to HHS to the Secretary, and you received it back in the same order that you submitted it to OMB.

We understand that this is totally a different report. OMB changed the States around. I think they cut it down to six. I think the Secretary said some two-thirds of the States would be granted waivers. Two months ago the report was going to be announced, but it was held up because of OMB, we understand.

Your report, since June of 1984, you have submitted to the Secretary. You have sent not some of the same recommendations, but some of the same findings are here in the final report as being released today from HHS. Is that correct?

Ms. Ross. You are talking about my testimony today?

Chairman Ford. Not only the testimony today, but I am concerned about the input from OMB.

Mr. O'Shaughnessy. Mr. Chairman, if you would let me address some of these things, since I work directly with the Secretary and do handle in the main or am deeply involved in the relationship between the Department and the Office of Management and Budget on budget matters.

One thing I think it is important to keep in mind in this whole process is the fact that since this was a first time for the imposition of sanctions or the granting of waivers under the Michel amendment, the legal aspects were of primary importance at all points simply because it is obviously the case that there could be litigation related to this matter.

And if I could try to summarize the kind of legal arguments that took place, and I am not a lawyer myself, but I would say they mainly broke into two phases. The first one was within the Department, and the concern was to ensure that the methodologies imposed, not only on the AFDC program, but also on the Medicaid Program, had some comparability, or as much comparability as could be established, and there was a series of meetings with a number of months involved, where there were consultations between the Office of Family Assistance with regard to the AFDC program, the Health Care Financing Administration with regard to the Medicaid Program, and the General Counsel's Office within the Department. And Ms. Ross represented AFDC in those meetings.

That took some time, to try to examine and ensure as much comparability as possible with regard to the two programs. And when the papers were submitted to the Office of the Secretary in June of 1984, they were the kinds of discussions which were taking place at that point.

They had also taken place prior to that, but that was a major focus. I would say when the budget cycle started up in great earnest, simply this matter was not given the same kind of continuous attention as it had been, say, from June through September or October. Almost everyone's attention was then focused on the preparation of the budget documents, and that took about 2, 3 months, and I think we resolved that in January.

At that point, when the papers were transmitted to the Office of Management and Budget, as they have to be in connection with Circular A-11 which regards the submission of budget documents to the Hill, all such documents have to go through the Office of Management and Budget for clearance. At that point, the Office of Management and Budget sought the involvement of the Justice Department for what I would call round two of the legal discussions of this, and that was the point at which we basically had three sets of lawyers looking at the definition of extraordinary circumstances. Office of Management and Budget lawyers, who basically deferred to the Department of Justice lawyers, and Health and Human Services lawyers.

Chairman FORD. Why was it necessary for OMB? Why didn't you go directly to Justice?

Mr. O'SHAUGHNESSY. We could have gone directly to them, but we have established a process over several issues now of having these kinds of discussions, basically going back to the disability experience within the Department last year. We learned that really the best way to handle these kinds of matters is just to get these groups of lawyers together and let them iron out various things, so we were basically following a pattern that we have used in other areas.

Chairman FORD. Well, staff has just indicated that HHS, the regional offices, were contacted by phone some 2 months ago. Could you indicate to the committee whether this is true? And if so, what were the regional offices told?

Mr. O'SHAUGHNESSY. I don't know.

Ms. Ross I am sorry, Mr. Chairman, Regional Offices in Family Assistance or the Regional Director's Office——

Chairman **Ford**. Family Assistance.

Ms. Ross. Well, one of the things that obviously——

Chairman **Ford**. Both.

Ms. Ross. One of the things, as administrator of the AFDC program, and with 10 field offices that I am in charge of is making sure that should we get press calls, or whatever, on different issues, that everyone in my agency has the correct information and is, in fact, telling a consistent story to the press.

Thus, we talk to our regional administrators constantly, Mr. Chairman, but I don't remember a special effort 2 months ago. But it is conceivable that we did say to them: If you hear rumors that things are happening on waiver requests, there is no decision, and we will let you know.

That would have been simply to let them know they were not authorized to make any statements until they heard a final decision from me and that would not be until I heard directly from the Secretary's Office.

However, I could check, because we do try to keep track of when we contact our regional offices, and there has been ongoing discussion on this issue, Mr. Chairman.

Chairman **Ford**. I see the six States I have before me. Do you have any information on the other States? I want to see how they were prioritized.

I see South Carolina, Virginia, Utah, Maryland, Arizona. I am trying to see the 7, 8, 9 , and 10. I see California. I guess it would have been eight.

Ms. Ross. Mr. Chairman, I could explain to you the process that was gone through to arrive at those six States, which I believe might be helpful.

Chairman **Ford**. Do you have any information which would show had there been a seventh, eighth, or ninth State, how they would have been prioritized?

Ms. Ross. Yes. I think it would help if I explained the process.

First of all, as I indicated, we evaluated and scored each waiver request. And in light of the congressional intent that waivers be granted only in extraordinary circumstances, the Secretary limited her consideration for waivers to those States that achieved a score of 80 or above and, in terms of the waiver requests that were submitted to our agency, 11 States satisfied this primary requirment.

I could read to you those 11 States if you are interested, Mr. Chairman.

Chairman **Ford**. Please.

Ms. Ross. In addition to the six you have there, Wyoming, Florida, Idaho, Tennessee, and Colorado. So we had roughly 40 percent of the States, 11, scoring 80 or above.

Chairman **Ford**. Give me those once again.

Ms. Ross. Wyoming, Florida, Idaho, Tennessee, and Colorado.

Chairman **Ford**. Thank you.

Mr. Matsui.

Mr. **Matsui**. Thank you, Mr. Chairman.

When did you finally come up with the methodology that you were using to pick out the six States or the other 22 States?

Ms. Ross. Mr. Matsui, in terms of when the decision was made, the decision was made this week based on the methodology. It is difficult for me to say when we came up with the final methodology, because a lot of discussion and a lot of options went into it. But I suppose that since the decision was made this week one could say we arrived at it this week.

But we looked at a number of things over and over again, and we were constantly modifying and analyzing, doing statistical analysis, mathematical analysis, to explore different approaches that the Secretary could use.

Mr. Matsui. Out of the $74 million——

Ms. Ross. $4.3 million of the potential disallowances were waived.

Mr. Matsui. Are we under oath here? Probably not. I guess we are relying on good faith.

I understand the original submittal to OMB was that the Department suggested about $57 million worth of waivers. Is that correct or incorrect?

Ms. Ross. As I indicated to the chairman just a few moments ago, Mr. Matsui, the document that was submitted to the Office of Management and Budget was not a final decision.

Mr. Matsui. I am not asking you if it was final or not final. I am asking you whether you submitted a document suggesting $57 million worth of waivers.

Ms. Ross. What was sent to the Office of Management and Budget were the scores for all the States as well as what the effect would be using a different methodology, and that was around $57 million. The purpose was really to look at the methodology.

Mr. Matsui. And that was your recommendation?

Ms. Ross. No, sir.

Mr. Matsui. You just send them pieces of paper while they are looking at the budget? In other words, you didn't support that position?

Ms. Ross. I would not say it was a recommendation. For one thing, it was sent over in draft form, and again, it was sent over at the stage when the Secretary was still in the preliminary stages of making a decision and wanted to get the advice of the OMB lawyers before proceeding any further.

Chairman Ford. Pardon me. Were you in support of that recommendation when it was sent over to OMB?

Ms. Ross. Mr. Chairman, it was not my decision. As I indicated, I made no recommendation. I am in support of the Secretary's decision today.

Mr. Matsui. Did you have a letter of transmittal when you sent over that document?

Ms. Ross. I am not aware of any letter of transmittal to OMB.

Mr. O'Shaughnessy. I don't know whether there was one or not.

Mr. Matsui. Would you please look in your files and submit to this committee any documents pertaining to that transmittal that you sent to OMB?

[The Department subsequently requested the following be inserted at this point:]

DEPARTMENT OF HEALTH & HUMAN SERVICES,
Washington DC, February 8, 1985.

Mr. JOHN F. COGAN,
Associate Director for Human Resources, Veterans and Labor, Office of Management and Budget, Washington, DC.

DEAR MR. COGAN: Enclosed are draft letters to States informing them of decisions on their requests for waivers of disallowances related to AFDC and Medicaid error rate targets under the Michel Amendment. The letters (28) provide details on the scoring used as the basis for the waiver decision in each case. There are additional letters reporting Medicaid waiver decisions for four States (Delaware, Rhode Island, Alaska, and West Virginia) which will be forwarded to you as soon as they are completed.

I have also enclosed a listing of the 1982 AFDC error rates and disallowance amounts by State. You should be aware that States have not yet been informed of these data nor has anyone in the Congress.

Yours truly,

JOHN J. O'SHAUGHNESSY,
Assistant Secretary for Management and Budget.

DEPARTMENT OF HEALTH & HUMAN SERVICES,
Washington, DC, February 14, 1985.

Mr. JOHN F. COGAN,
Associate Director for Human Resources, Veterans and Labor, Office of Management and Budget, Washington, DC.

DEAR MR. COGAN. Enclosed are the draft letters announcing decisions on Medicaid waivers, which I indicated were missing from the package I sent you on February 8. The letters are addressed to the Governors of Rhode Island, West Virginia, Alaska and Delaware.

This completes the package of draft letters informing States of waiver decisions for AFDC and Medicaid for the first measurement period under the Michel Amendment.

Yours truly,

JOHN J. O'SHAUGHNESSY,
Assistant Secretary for Management and Budget.

Mr. O'SHAUGHNESSY. Yes, we will do that, sir. We will look at it and find the documents, and we have to defer to lawyers about it.

Mr. MATSUI. Why would you have to defer to lawyers?

Mr. O'SHAUGHNESSY. I have promised papers to the Hill and found that lawyers engaged in discussions that took weeks.

Mr. MATSUI. All we want is a letter of transmittal that you sent to OMB, that the methodology that would result in $57 million worth of waivers was a reasonable approach. That is all we want. You can get us that, can you not?

Mr. O'SHAUGHNESSY. Yes, we can, sir.

Mr. MATSUI. And will you get it to us this week?

Mr. O'SHAUGHNESSY. We will do our best, sir. I, of course, will consult with our lawyers. I have in the past made promises——

Mr. MATSUI. What objections would the lawyers have?

Mr. O'SHAUGHNESSY. I don't know. In testimony with some Senators, I have promised them a document which I said I could get to them very quickly. I found the document very quickly, and it was weeks——

Mr. MATSUI. There were 28 States. If you would have given $57 million worth of waivers out of the 74, what States would not have received waivers?

Ms. ROSS. There were no States that would not have received waivers, Mr. Matsui. And I think it might be important for me to explain the methodology and the fundamental change that took place in that methodology, and what was finally applied.

The methodology sent over to the OMB used raw scores. If the State scored 75 or 92, the State would get that percentage of its potential disallowance waived. However, it was the opinion of many of the lawyers that we were discussing this with that we needed to have some kind of a cutoff because Congress had defined good faith to be given only in certain limited circumstances. And when you were giving waivers to all States, you were simply using the score to determine the percentage of waiver, you were not drawing any distinction between States that had made a good faith effort or didn't, but rather in the degree of effort that the State made.

Mr. Matsui. The legislation requires two criteria.

Ms. Ross. I would like to correct one thing. Puerto Rico would not have received a waiver under the raw score methodology because it is the one jurisdiction whose request was based solely on events beyond the State's control.

Mr. Matsui. The legislation talks about good faith effort and extraordinary circumstances. Those are the two criteria that we are using. I am assuming that when you came up with the methodology which would have allowed $57 million worth of waivers, you, your staff, and HHS considered those two aspects, good faith and extraordinary circumstances, right?

Ms. Ross. Mr. Matsui, we had some other options as well.

Mr. Matsui. I understand that. You do follow legislation, do you not?

Ms. Ross. Of course I do.

Mr. Matsui. So good faith and extraordinary circumstances were major components of whatever methodology you came up with.

Ms. Ross. Well, quite frankly, it was a concern of my agency and myself at the time that we should have some kind of——

Mr. Matsui. Well, prior to sending over this transmittal to OMB, did you talk to the HHS lawyers?

Ms. Ross. Yes, we did.

Mr. Matsui. And they signed off, is that right?

Ms. Ross. They signed off on a number of methodologies, but, yes, they did.

Mr. Matsui. They signed off on this methodology, is that right?

Ms. Ross. Yes.

Mr. Matsui. Maybe you don't know this, but you do have competent lawyers at HHS, do you not?

Ms. Ross. I think so.

Mr. Matsui. I do, too. And they read the law, I presume, that extraordinary circumstances were required and good faith effort was required. Is that correct?

Ms. Ross. Yes, that is true. At this point, however, I think it is important to point out that the lawyers felt that there were a number of different ways the Secretary could choose to go, and that was one of them. And in fact, the methodology the Secretary ended up using was somewhat different, combining some aspects of different methodologies.

Mr. Matsui. Your lawyers did not tell you that the methodology that you sent over resulted in $57 million worth of waivers, did not have a component of good faith, and a measure of extraordinary circumstances at the same time, did they?

Ms. Ross. We did not have a total consensus of opinion among the lawyers at HHS. We had some people who thought you could make a stronger case——

Mr. Matsui. What is the name of the lawyer who finally signed off?

Ms. Ross. The person who finally signed off was the General Counsel.

Mr. Matsui. And he is the top lawyer in HHS, is that right?

Ms. Ross. Yes. He was the top lawyer.

Mr. Matsui. He makes the final decision, does he not?

Ms. Ross. The attorneys often emphasized to us that what they gave was advice and not decisions.

Mr. Matsui. He said this was legally OK?

Ms. Ross. Yes. He also said that legally there was a number of other methodologies that were legally OK.

Mr. Matsui. I understand that. I am not saying there was any legal manipulation here. What about when it went over to OMB? You said, I believe the gentleman said, that a discussion of extraordinary circumstances did come up.

Ms. Ross. Yes, sir. That is when we got more into discussions about the extraordinary circumstance situation. As I said, I, myself, had concerns about the fact that we didn't have a floor, a cutoff point for good faith waivers.

Mr. Matsui. Good faith, or are we talking about extraordinary circumstances?

Ms. Ross. Extraordinary circumstances.

Mr. Matsui. Good faith was not an issue.

Ms. Ross. That was factored into the scores.

Mr. Matsui. Am I correct in saying that OMB had no objection to the expression of good faith?

Ms. Ross. No.

Mr. Matsui. Just extraordinary circumstances?

Ms. Ross. The discussion at OMB was about extraordinary circumstances, and it was the position of OMB lawyers that when you had a situation where every State would get some kind of a waiver, even States who had scored low in terms of good faith, that you were not using what would be considered a reasonable definition under the law for extraordinary circumstances. I believe, quite frankly, as we pursued those discussions that all of us saw the merit to that point of view, including the Secretary.

Mr. O'Shaughnessy. Let me add to this, sir, that with regard to some of these legal considerations, as Ms. Ross has said, when the HHS lawyers looked at various methodologies, they assessed the methodology in terms of legal risks.

Mr. Matsui. Can you tell me that again? Assessed the legal risk——

Mr. O'Shaughnessy. You look at a methodology, which, if one is brought into litigation, one might for one reason or another appear to be a more formidable position to take.

Mr. Matsui. Would you please restate that?

Mr. O'Shaughnessy. Yes. If you have methodology A versus methodology B versus methodology C, I have never yet met a lawyer who says you must use A, not B and not C. You will often get the response it would be preferable to use A versus B and C, although they would not rule out using any of them. I am not familiar with lawyers who rule out particular courses of action.

In any case, having assessed things in terms of these preferable approaches to use, for example, with regard to the continuity between Medicaid and AFDC methodologies, they would say the various methodologies that came before them could be differentiated in terms of what I would call legal risk. Perhaps it is not a term that members of the committee would use.

Mr. MATSUI. I am sorry. I don't understand. Legal risks?

Mr. O'SHAUGHNESSY. In terms of the strength of a case, if brought before litigation.

Mr. MATSUI. Give me the circumstances. Would a taxpayer file a suit because——

Mr. O'SHAUGHNESSY. If a taxpayer, if a State, if any interested party would bring a suit.

Mr. MATSUI. You are not worried about a State filing a suit, is that right? They didn't think about it the other way.

Mr. O'SHAUGHNESSY. No; I wouldn't say that was the case.

Mr. MATSUI. Go on. I am sorry. I didn't mean to interrupt you.

Mr. O'SHAUGHNESSY. Then when the discussions began, as I indicated, with the attorneys from the Office of Management and Budget, and the Department of Justice, they, too, came in with their views of the strengths of these various methodologies, and that is basically what this period of time over the last few months has been devoted to. The arguments and discussions between attorneys as to factors to be considered, and really how one defines "extraordinary" or the other phrase, "limited circumstances," which is I believe in the law, how they should be defined.

Mr. MATSUI. It said limited to extraordinary circumstances. Is that what you are saying?

Mr. O'SHAUGHNESSY. Yes; I am, sir.

Let me also stress that the major attorneys involved were the Department of Justice attorneys and Health and Human Services attorneys. The Office of Management and Budget attorneys had to be interested parties, but they were, I would say, not taking the lead position in this whole discussion.

Mr. MATSUI. So, you are saying the OMB attorneys were not taking the lead in this. They just looked at it, and——

Mr. O'SHAUGHNESSY. Basically, asked for Justice to get involved.

Mr. MATSUI. And Justice looked at it.

Mr. O'SHAUGHNESSY. Yes.

Mr. MATSUI. Who was it in Justice who said that the definition of extraordinary circumstances that you submitted in the $57 million waiver was an incorrect interpretation? Did they say that?

Mr. O'SHAUGHNESSY. Yes, they did.

Mr. MATSUI. May I see a legal opinion on that?

Mr. O'SHAUGHNESSY. I don't think it is correct to say that they said it was an illegal interpretation, per se. It is important to point out that in this entire discussion about potential litigation, be it taxpayers or States, our concern is to be sure that we are upholding the law and regulations.

Mr. **Matsui**. After what happened with the tax exempt status of private schools about 3 years ago, and the litigation that was involved there, I can understand why Justice would want to be a little more careful, but I won't get into that.

In answer to my question, let me rephrase the question. You are not saying that anybody at Justice said that the definition of extraordinary circumstances that was used in your transmittal for the $57 million worth of waivers was an incorrect interpretation, or that it was a violation of the terms of statutes?

Ms. **Ross**. My problem, Mr. Matsui, is that the word correct was not used. But, in fact, what they said was that they did not feel that it represented extraordinary circumstances based on their reading of the law and regulations. They didn't say it was an illegal interpretation. They did make it very clear that they felt a more clear reading of the regulations was to have a cutoff of some kind.

Mr. **Matsui**. What do you mean cutoff? You have mentioned that a few times. What do you mean a cutoff?

Ms. **Ross**. In other words, instead of giving a waiver to every State, as we had discussed a few moments ago, based on that methodology sent to OMB, that some determinations were made about which States in fact had extraordinary circumstances.

Mr. **Matsui**. Tell me now——

Ms. **Ross**. Degrees of good faith, as well as the extraordinary circumstances.

Mr. **Matsui**. Tell me where in the legislation or in your testimony you talk about percentages of States that may get it, or cut off? If all 28 States comply with the law, shouldn't they receive it, or are you saying that in the legislation we are supposed to save money by only giving so many States that apply?

Mr. **O'Shaughnessy**. No; a major consideration from the point of view of the Department of Justice lawyers was that in looking at the situation one had to cross check the results of this paper review with the reality of the programs; that is, what happened in the programs by way of having errors actually go down by way of having States come close to their target goals.

For example, it was their view that it would be inappropriate to give waivers to States that had a large increase in errors. Thus, if you had a review process which gave a State a certain score, and then at the same time the errors might have gone up by 30 percent in that program, they felt that was not the better interpretation.

Mr. **Matsui**. Let us take one for example. In Arizona, in 1979-80 at an actual error rate of 7.7 percent. But Arizona is one of the States—they got a waiver.

Mr. **O'Shaughnessy**. Sir, it might be desirable if I could read to you a statement prepared by the attorneys——

Mr. **Matsui**. I want to make sure I understand what you just said. Arizona had an error rate in 1981 of 8.3 percent. Their target rate was 6.7 percent, is that correct?

Ms. **Ross**. That is correct, sir.

Mr. **Matsui**. And then their error rate for the first 6 months, from October 1981 to March 1982, was 11.7 percent. That is about what? How many percent increase? Over 20 percent increase?

Ms. Ross. We did not look at 1982, Mr. Chairman, because this was the 1981 review process. We did not look ahead to fiscal year 1982.

Mr. Matsui. What was it in 1982?

Ms. Ross. In 1981, for Arizona, 8.3 percent. They had decreased their error rate by 0.4 of a percentage point from 1980.

Mr. Matsui. That is interesting. You are rewarding the State that went up the next year. That is weird, isn't it?

Mr. O'Shaughnessy. Excuse me, sir. May I say that your response there is very similar to the kinds of responses that we were getting from attorneys as they would look at the evaluations and then look at the indicators from the program. And in fact, that is the same kind of response where they would say here is an evaluation, and here is the reality. We have a statement from the lawyers that I think may shed some light on this.

Perhaps Ms. Ross could explain that.

Ms. Ross. As I had explained to the chairman earlier, after we evaluated the States based on our criteria, we decided that, for extraordinary circumstances, we would look at States that achieved scores of 80 or above. And then we compared the scores from the paper evaluation, which were based on the materials submitted from the States, with factors just like you have mentioned.

We concluded that the actual error rate data was an additional indication of the good faith effort—also implied by the corrective action process scores—and if a contradiction existed a waiver would not be appropriate. We examined the amount by which a State had exceeded its error rate in 1981 and the amount by which the error rate was reduced from 1980 to 1981.

On that basis we determined that five States that scored at least an 80 on their corrective action process should not receive a waiver. I would like to give you what we looked at in terms of disqualifying criteria on the two factors.

Wyoming was one of the top 11 States, but it was excluded because its error rate was 342.5 percent above its target error area. Florida was excluded because its error rate was 154.9 percent of its target and, in addition, its error rate rose 29.5 percent from fiscal year 1980 to 1981, or to give you actual figures from 6.1 percent in fiscal year 1980 to 7.9 percent in fiscal year 1981.

Idaho was excluded because its error rate was 211.6 percent of the target amount. Tennessee was excluded, as its error rate rose 27.1 percent. The actual figures are 7 percent in fiscal year 1980 and 8.9 percent in fiscal year 1981.

Colorado was excluded because its error rate was 195.2 percent of the target amount. The remaining States, Utah, Vermont, New Jersey, Maryland, Arizona, and South Carolina, were awarded waivers. All of these States came significantly closer to their target error rates than the excluded States, and in addition all showed a decrease, or only a very small increase in the error rate from fiscal year 1980 to fiscal year 1981. Thus, as far as these States were concerned, we saw nothing in the data to contradict the determination of superior effort.

Chairman Ford. There is a recorded vote on the House floor. There are about 9 minutes remaining.

Mr. **Matsui**. Ms. Ross, you have mentioned that Idaho was excluded because their rate was up.

Ms. Ross. They exceeded their error rate target. It was, in essence, 111 percent over what it should have been.

Mr. **Matsui**. What is interesting, this is the part that is perplexing, because of the lateness that you have given all of these data, and the lateness of the final decisions, the Idaho decision, and they are down to 4.9——

Chairman **Ford**. The committee would like to stand in recess for 15 minutes.

Mr. **Campbell**. I just want to make sure I am clear in my mind; 1982 has nothing to do with 1981.

Mr. **Matsui**. I understand that, and I am not suggesting that it does, except for the fact that these States that you have mentioned have improved, and the State that you have given a reward to, Arizona, in this case, has not improved. It has gotten worse. Is that correct?

Ms. Ross. I can pull out the 1982 data. I don't have it in front of me now.

Chairman **Ford**. Why don't you get that information for Mr. Matsui, and we will return back in about 10 minutes.

[Recess.]

Mr. **Pease** [presiding]. The hearing will come to order.

Mr. Matsui will continue his inquiry.

Mr. **Matsui**. Thank you, Mr. Chairman. I just have a couple more questions, and then I would yield back to the Chair.

Ms. Ross, I was just informed, and I would like you to affirm or deny this, there were 5 other States you said, 11 States that were on the final cutoff, and then you ended up cutting off 5 to an even 6.

Ms. Ross. Yes; that is right.

Mr. **Matsui**. Now, it is my understanding in talking to staff just moment ago that one of the criteria that was used to cut off those five was to look at the next year, that is, the 1982 fiscal year.

Ms. Ross. That is not true, Mr. Chairman.

Mr. **Matsui**. That is not true under any circumstance?

Ms. Ross. That is not true under any circumstance. And I consider myself under oath whether I am officially or not, and that is not true.

Mr. **Matsui**. The purpose of the sanctions, I would imagine, is to try to get States to improve their own methodology, and also reduce their eligibility error rate, and also their payment error rate. Is that correct?

Ms. Ross. Yes, of course, it is.

Mr. **Matsui**. And I suppose it is kind of a carrot and stick approach. In other words, you reward States that improve, and you obviously punish, and you have to punish States that are not improving. Is that correct?

Ms. Ross. I am not sure that I would call it rewarding and punishing so much as simply following the requirements of the law and the regulations.

Mr. **Matsui**. The irony of this whole situation, of course, is just what we said before the recess. That here we were rewarding a State like Arizona, which admittedly dropped its error rate in the year you are speaking about, but at the same time went up in the next year, and States such as Idaho, which improved within the next year, you obviously are not granting a waiver to because their error rate was higher in 1981 than it was in 1980.

Ms. Ross. I would say, Mr. Chairman, that I believe that the procedure as outlined in the law and regulation by the Congress, and by the regulations from HHS certainly take into account improvements by States. This is not a 1-year process. The States which achieved the improvement in fiscal year 1982, will not be subject to disallowance, or will have a better argument in applying for a good faith waiver next year.

Mr. Matsui. I understand, Ms. Ross, but, you see, the problem is that I recall testimony last October from the administrator of the program from Arizona. It was very interesting because she had indicated during this testimony that she wasn't even there in 1981 when all these problems were occurring, and they have really straightened out their problems now, and of course you did grant Arizona a waiver in this situation.

But anyway, somebody did testify in either New Mexico or Arizona, and the problem is that you are rewarding and punishing, because we are being punished in California for acts that occurred almost 5 years ago. I realize that you are trying to carry out the law, and if you people had come up with this criteria 3 years ago and tied it down 3 years ago, I would say this is what we deserved in California, or in the 22 other States. Because after all, the error rate went up, and they should have been going down. But in this case we are talking about 48 months later. You are talking about States that changed their methodology.

It just doesn't seem equitable, and you are punishing States, whether you want to use that term or not, for things that happened too long ago. It would be a little like an amusing analogy here, a parent telling their child in the sixth grade "You did great, so we are going to give you a new bike;" and you flunked out in the seventh grade, when they actually give you the bike. It just makes no sense at all what we are doing here.

Another question I have. Now that you have this methodology down, is this methodology going to remain constant for the indefinite future? And if you are going to refine it, you basically have a floating criteria, and it really becomes meaningless. I realize you can't bind yourself to future acts of future administrations or even next year, because you are constantly refining these things.

Ms. Ross. I can give some information there, though, Mr. Chairman. We published a regulation last fall which was promulgated based on the Tax Equity and Fiscal Responsibility Act which was passed in 1982, and that regulation does add additional criteria for applying for a good faith waiver for fiscal year 1985 and beyond.

And so we have clarified the criteria for the out years. We have put States on notice that we will be looking for additional criteria. We have also begun to do an evaluation of our weighting factors, and to look at possible additional information we might be able to give the States in future years.

At this point in time, though, it is not exactly certain how we would proceed for next year.

Mr. MATSUI. And that is the reason that I am somewhat concerned. This year California, for the 1981 fiscal year ended up not getting a waiver, and other States, you know, have gotten a waiver. And if you change the rules, I don't know if you are treating the situation in an equitable fashion.

Ms. ROSS. I would like to make this point, and that is that we certainly appreciate your concern and your colleague's concern about the length of time the process has taken, and we have the same concerns. Perhaps from a different vantage point, but certainly the same concerns that you do, Mr. Matsui. And whatever process we use for future years, it will be geared to—we are not expecting anything dramatically different in terms of looking at and addressing the problems at length, or the decisions on the waiver test—getting information to the States as soon as possible, which is something we are very concerned about as well.

And I assure you that whatever steps we take, we will take comments from you and your colleagues into consideration.

Mr. MATSUI. Let me complete by asking this one more series of questions. If I may, I am going to pick a State other than the one who has a member on this subcommittee, Maryland, which in 1981 had 11.6 percent error rate. What was the extraordinary circumstance in Maryland that resulted in them being granted a waiver in this State?

Ms. ROSS. In Maryland, they met the 80 point cutoff in terms of their scoring on corrective action, having an effective correction action plan in place, and implementing it and monitoring it correctly. And I will provide the weighting factors should you be interested in reviewing them.

The second thing, in looking at the top 11 States, Maryland exceeded its target error for 1981. It was 11.5 percent over target.

Further, the fiscal year 1980 error rate for Maryland was 12.7 percent, and they showed a reduction for fiscal year 1981 to 11.6 percent, and that was the basis for the decision for giving Maryland a waiver.

Mr. MATSUI. What about the extraordinary circumstances?

Ms. ROSS. We believe that using the 80 point cutoff and looking at the fact that States had come fairly close to achieving the target error rate, as well as some improvement in the error rate from 1 year to the next, did in fact qualify them for extraordinary circumstances.

Mr. MATSUI. What is the way you define extraordinary circumstances?

Ms. ROSS. Extraordinary circumstances can perhaps best be addressed by looking at the score that they got in terms of the results of our review. In fact, Maryland scored 81.5 points out of a possible 100, and then the State also made a superior effort. Not only did it score 81.5, but it also was only 11.5 percent over the target error rate for 1981 and it showed a reduction from 1980 to 1981.

Mr. MATSUI. I thought your testimony was that extraordinary circumstances——

Mr. CAMPBELL. If the gentleman would yield, are you talking about extraordinary circumstances, or are you talking about the corrective action plan?

Ms. Ross. Corrective action plans are one extraordinary circumstance cited in the regulation. What we are talking about is in certain limited cases that waivers would be granted, so I am perhaps semantically confusing the issue, and I don't want to do that. That is a clarification.

Mr. Matsui. In other words, if they made corrective action, that would be an extraordinary circumstance.

Ms. Ross. That is one of the things that is explained in the regulations. There are five conditions for extraordinary circumstances.

Mr. Matsui. I would have thought that that would have been more like good faith. It is interesting. It says sudden anticipation, workload——

Mr. Pease. Would the gentleman yield?

Mr. Matsui. Yes.

Mr. Pease. Ms. Ross, on page 3 of your testimony, near the bottom, you say four of the five circumstances cited in the regulations are generally considered beyond the State's control, and then you list four. What is the fifth circumstance?

Ms. Ross. The fifth circumstance is corrective action, the State having and carrying out a corrective action plan. So I think what we are talking about here is certain limited circumstances, Mr. Matsui.

Mr. Matsui. So corrective action has to result in a reduction of the error rate?

Ms. Ross. It does not have to result in a reduction of the error rate, but when we looked at the top 11 States, the Secretary made the decision that States that scored 80 or above would be considered for a waiver.

Mr. Matsui. How do you get that 80 or above?

Ms. Ross. She decided 80 points or above was a reasonable number to use, and——

Mr. Matsui. How do you get to 80?

Ms. Ross. That gets back to those weights and factors that I was talking about, the things that go into things like top management commitment, quality of systems, monitoring of corrective action plan, and those aren't specific factors, but general groupings.

Mr. Matsui. What was California's score?

Ms. Ross. California's score was 70.2.

Mr. Matsui. And 80 was the cutoff.

Ms. Ross. Eighty was the cutoff, yes, sir.

Mr. Matsui. Now, did any of the five States qualify on the first four circumstances like disaster, sudden anticipated disaster?

Ms. Ross. No, sir. As I indicated in my testimony, 20 of the States did submit waivers based on those circumstances. However, you had to meet all four criteria, and where a State said, for example, and I am not sure a State said this particular thing, but as an example under that regulation, let us say the State had a hurricane, then they clearly had the extraordinary circumstance. What they did not do, then, was show that there was some relationship between that hurricane—for example, staff had to be diverted, emergency activities—and an increase in the error rate. And they did not show, for example, that they took corrective actions immediately, specifically designed to forestall an increase in the error rate that would be caused by that. No State met all four criteria and was granted a waiver on that basis.

Mr. **Matsui**. The final question is when you developed the criteria which resulted in $57 million worth of waivers, was it much different from the criteria that were ultimately adopted?

Ms. **Ross**. We use the exact same scores that the Secretary used in making the determination. It was not a different cutoff, per se, because there was no cutoff. It was a different methodology, where you took the raw score of, say, 80 points and gave the State an 80 percent waiver, as opposed to making a determination that there should be some distinction between those States that made a good faith effort, as opposed to all States making a degree of good faith effort.

Mr. **Matsui**. And that was all related to the extraordinary circumstances? Because that is where the hangup was, on the definition of extraordinary circumstances?

Ms. **Ross**. It was limited to the severity of the cases, and I believe I cited that in my testimony as well.

Mr. **Matsui**. I am going to yield back, because I realize other members want to ask questions, but I really have difficulty understanding what happened at OMB. Because you mentioned that the definition of extraordinary circumstance was what really made the difference in terms of the $4 million as opposed to the $57 million and the different criteria.

At the same time it just seems to me that you are using that as a hook, so to speak, in order to get the amount down, because when you get down to the specifics you are talking about using raw scores rather than a weighted score.

Ms. **Ross**. Oh, no, I didn't mean to mislead you in that way. No, sir. Perhaps I might clarify that again. If that is the understanding, I have not done a good job of explaining it.

Mr. **Matsui**. Please. I do want to be correct on that.

Ms. **Ross**. For example, in the final decision of the Secretary, States that made 80 or above were in the final cut in terms of looking at whether they were eligible for a waiver. She made the decision that if States scored below 80 points they would not be eligible. That was the first factor.

Now, in the methodology that was originally sent to OMB, used weighted scores as well. They were exactly the same scores.

For example, take in the case of California. I am sure you are interested in that. California scored a 70.2, so it did not make the 80 cutoff the Secretary established when she made her decision.

However, in that preliminary methodology, and once again, it was one of many that we have looked at, California would have gotten a 70.2 percent waiver. It was a matter of taking the score and applying it to the percentage of waiver. That is what I was trying to explain, as opposed to deciding whether or not a State made a good faith effort, that methodology looked more at the degree of good faith effort, as opposed to having a cut-off.

Mr. **Matsui**. You are talking about good faith effort rather than extraordinary circumstances here, though, and that is why I have a difficulty with all this.

Well, perhaps you could send me the legal opinion that discussed that in addition to the letter of transmittal. This is such a major issue, I am sure there were legal opinions written, and I hope that is not considered to be a work product of the attorneys?

Mr. O'SHAUGHNESSY. There were some opinions written that were passed between HHS and Justice, and we will have to try to find them. I am not sure———

Mr. MATSUI. I know you are concerned about a lawsuit, but there may be States who have to engage in lawsuits in this situation.

Mr. O'SHAUGHNESSY. We will have to defer to the general counsel on the submission of such documents.

Mr. MATSUI. I understand that. I understand that to be a legitimate concern on your part.

Just for the record, there were, then, legal documents that went from HHS to Justice.

[The following was subsequently received:]

No formal legal opinions were prepared by HHS or furnished to HHS by OMB or the Justice Department. The evaluation of options under consideration was made orally among lawyers for the three agencies. A draft informal analysis of certain litigation risks was, however, furnished to the Justice Department and OMB, and a copy has been forwarded to the Committee with the request that it not be publicly disclosed. [Note.—See draft opinion at p. 351.]

Mr. O'SHAUGHNESSY. I was informed about that over the telephone. I don't recall seeing the document myself.

Mr. PEASE. Thank you, Mr. Matsui.

Mr. Campbell.

Mr. CAMPBELL. Just to follow that point for a moment, in trying to establish criteria by which you could judge whether to grant a waiver or not, you sought legal opinions: You sought them from your own counsel and then, as I understand it, inquiry was made with Justice, acting as counsel also; is that correct?

Ms. ROSS. That is correct.

Mr. CAMPBELL. So you were dealing internally in a client-attorney relationship seeking the best advice that you could have?

Ms. ROSS That is absolutely correct.

Mr. CAMPBELL. The fact is that you were trying to establish some set of criteria by which to determine whether to grant any waiver; is that correct?

Ms. ROSS. Yes; how to make a determination for granting waivers.

Mr. CAMPBELL And your advice from counsel, be it internal or Justice, is that the criteria that you have adopted are judicially defensible; is that correct?

Ms. ROSS. That is correct.

Mr. CAMPBELL. And, had you not sought this advice, you would have been in the position, of course, of not knowing whether that could be challenged under the best advice of counsel?

Ms. ROSS. Yes; that is true.

Mr. CAMPBELL. OK. So, it was not an attempt by counsel or Justice to write the criteria, but to inform you in the process of writing what might or might not be judicially defensible?

Ms. ROSS. That is correct.

Mr. CAMPBELL. That is prudent action for anyone to take if he is worried about the possibility of a lawsuit, which, in fact, I could imagine this would invite. I would not doubt it a bit.

Now, the second point that I want to clear up is that we are dealing with 1981 and the 3 preceding years, and the criteria which were set for reaching a goal about 1981; is that correct?

Ms. Ross. For 1981. We are dealing with data for 1981 as well, in terms of error reduction progress.

Mr. Campbell. And they had 3 years.

Ms. Ross. To get ready for 1981, yes. That is true.

Mr. Campbell. But we are not dealing with 1982, 1983 or 1984?

Ms. Ross. No, sir; that is for the future.

Mr. Campbell. And that was not in consideration in any of the criteria that were adopted?

Ms. Ross. No, it was not.

Mr. Campbell. And when you say that is for the future, that means that a State such as mine, which has gone up in its error rate for the next year, would be very vulnerable to some sanctions against the State in the next round; but it has nothing to do with this round. Is that correct?

Ms. Ross. It has nothing to do with this round and while I hesitate to get into hypotheticals, yes, one could assume that.

Mr. Campbell. I want you to understand I am not looking for that, and I am sure Mr. Matsui and no one else is, but I wanted to make sure that I understood that 1981 is a separate and complete judgment in its own right. And then 1982, when you reach that point of judgment, will be separate and based on the criteria for target rates for 1982; for the established criteria that you have in its own right; is that correct?

Ms. Ross. That is correct. We will deal with 1 year at a time.

Mr. Campbell. So, theoretically, a State could have had no penalties, nor any sanctions at all brought against them for 1981, but they could have them brought against them for 1982, because they reversed and did not meet established goals, and vice versa?

Ms. Ross. That is true.

Mr. Campbell. OK. So we are dealing with a process, and 1981 just happens to be the first year with which we are dealing.

Now, you cited in your testimony that 28 States submitted requests, and then you said that 20 of them cited extraordinary circumstances, and there were 53 circumstances that were cited. And you then, through your testimony, showed a general process of elimination until you got down to 11 States; is that what I understood?

Ms. Ross: Yes; that is right; 11 States scored above 80.

Mr. Campbell. So there was an orderly process of dealing with the elimination until you got down to the 11, which were in the 80 category. Would you go through for me one time again the criteria that were used for choosing the ones that would receive the waiver? I understand the others. You have dropped down; you have outlined it, and I think it is very clear, but I am not totally clear in my own mind on the last 11.

Ms. Ross. OK. When we got those 11 States, we then looked at the percentage by which they exceeded their target error rate. Obviously, they all exceeded their target error rate, or they would not have had to file for a good faith waiver.

Mr. **Campbell**. Let me stop right there. There were 28 submitted requests, so that means, of the States, we had 22 that did not have any sanctions against them?

Ms. Ross. At least 22.

Mr. **Campbell**. Twenty-two of the States have gone out and met all of the criteria and had no penalties against them.

Ms. Ross. Yes.

Mr. **Campbell**. And we then eliminated not quite half of the States that complied, and we get down to 28 and then, in the 28, there was some decision that perhaps the criteria was a little too tight and that some States might look for waivers based on extraordinary circumstances, in the 5 extraordinary circumstances that you have cited?

Ms. Ross. Yes.

Mr. **Campbell**. And that is how you got down to your 11. Now, would you go on with that criteria again?

Ms. Ross. Yes, sir. We got down to those 11, and then we looked at the percentage by which they exceeded their target. And, in the case of, for example, Wyoming, Wyoming scored high above 80. However, Wyoming's fiscal year error rate was 342.5 percent of its target; 242.5 percent above its fiscal year 1981 error rate.

Florida, again another State that scored over 80, was excluded because its error rate was 154 percent of target, or exceeded it by 54 percent.

Mr. **Campbell**. Let me stop you right there a minute: In looking at Wyoming, I see a 13.7 which was on the high side. Did you look at the level of the error rate in the process of determining this?

In other words, say, Wyoming, or one of the States had a target rate and you say they exceeded 150 percent, but let us say they only had a 5.5 percent error rate, and, therefore, their excess in percentages was high but, in actuality, they might have been much better than other States. Did you weigh any of that sort of thing?

Mr. **O'Shaughnessy**. Might I address that?

One of the first questions, in fact, raised by the lawyers in this process that we went through in the last few months, in looking at that particular State, Wyoming, for example, the point was raised that it had a very good corrective action plan which, as it was scored, came up with 92.8. But then the fact was it also had one of the highest error rates in the Nation, at 13.7 percent. And the lawyers at that point were saying how does one give a waiver for a State which, in fact, has the highest error rate in the country, excluding the District of Columbia and Alaska. So that is the kind of consideration that was involved.

Mr. **Campbell**. In other words, hypothetically, let us say a State cuts its error rate from 5 percent to 4 percent, you would give them a better weight than you would somebody who cut their error rate from 12 to 10 percent?

Mr. **O'Shaughnessy**. No. I would say this: The main focus was on the corrective action process. If the States were above the cutoff point of 80, then one looked for confirmatory data indicating that, in fact, these plans did work.

Mr. **Campbell**. I was not clear, I mean once we have gotten down to the end of the line above 80, and you are looking at these weights.

Mr. O'Shaughnessy. I would say there was no additional weight assigned to the magnitude of the jump. All that was looked at was whether, in fact, the State either went down or was relatively the same. There was no effort to say that a drop of 2 points is worth more than a drop of 3 points.

Mr. Campbell. I cut you off, I apologize; but we are just asking questions as we go along.

Ms. Ross. That is quite all right, Mr. Campbell.

I was just continuing to explain how the remaining of the 5 States were excluded, the ones who had scored 80 or more points. And I had gotten to the point that I explained that Florida exceeded its target by 54.9 percent and, in addition, its error rate rose 29.5 percent, or, in actual terms, from 6.1 percent in 1980, to 7.9 percent in 1981.

Idaho was excluded because its error rate was 211 percent of its target or 111 percent over the target.

Tennessee was excluded because its error rate was 48 percent over the target, and also its error rate rose 27 percent, or, in actual terms, from 7 percent to 8.9 percent from 1980 to 1981.

Colorado was excluded because its error rate was 195 percent of the target, or 95 percent higher than it should have been.

Mr. Campbell. In other words, if a State had a rise in its error rate, even though it might have come a little closer to target, that rise was a factor in determining whether they would be given a waiver or not. You are looking at the direction of a State?

Ms. Ross. Yes, that is correct. One other thing, I would just like to take an opportunity to clarify as we continue to talk about corrective action plans. We certainly looked at much more than whether a State simply had a plan in place. Corrective action has to do with not only having the plan, but also the implementation of the plan and the monitoring of that plan. I think it is important to make that distinction so you realize it is based on activity States were actually engaged in, as opposed to simply a plan that could have been written and sitting somewhere being ignored.

Mr. Campbell. I understand that the statute according to your testimony, allows the Secretary to reduce the disallowance in which it is determined that States were unable to reach the required reduction in a given year despite a good faith effort?

Mr. Ross. Yes.

Mr. Campbell. So good faith effort is not a criterion in and of itself. It is assumed they have made a good faith effort; right?

Ms. Ross. We do not assume they made a good faith effort. They have to prove to us that they did.

Mr. Campbell. But, I mean, even to get to the point of consideration, they have to have made a good faith effort. But that is not a determining criterion.

Ms. Ross. Well, in terms of looking at defining good faith effort, that is one reason that I believe the Secretary chose to consider States that scored 80 or above. Because, in terms of looking at good faith effort, those States clearly had passed the review in terms of the high score they received, based on the criterion laid out in regulations.

Mr. Campbell. Now, Ms. Ross, I was interested in some of the other testimony that you gave discussing the 1981 national error rate, which came down to 7.6 percent. You state that had the error rate for that year been 16.5 percent, that we would have spent $2 billion—$2.1 billion, and that we actually spent almost $1 billion. So we let a lot of that go by the wayside, but we would have let another $1.1 billion go on top of that. Is that right?

Ms. Ross. That is correct.

Mr. Campbell. And you are only dealing with about 8 percent of the funds spent erroneously; is that right?

Ms. Ross. Yes. The $73.5 million in AFDC represents 8 percent of the total $953 million that were spent erroneously in 1981.

Mr. Campbell. You would not know right offhand how many of the 28 States that submitted the requests for waivers, have pending before the Congress a request for a Constitutional Convention to have a balanced budget, would you?

Ms. Ross. No, sir; I would not have that information.

Mr. Campbell. I, certainly, would love to know. I think it is always interesting when we deal with this type of situation. It is just one of those things.

We seem to be pushed for it, and we have a hard time with it, but I would like to know. We are making some progress. We have gotten it down and yet wanted to try to be fair. My concern is really in the fairness. I have no argument with the process, with what you have done, with what you have outlined in seeking this. The only thing that seems to be at all discretionary to me is in the final 11 States, and that would be the only place that I would want to make very sure that we understood the criterion. That was my reason for pushing a little bit in that area. It appears to me, if the States are out of that final 11, and they request, essentially, the overall general criteria that were set have eliminated them on their own, and that they were not at a point of discretion at all. But in the final 11, there was some point of discretion. And that is the reason I wanted to make sure that everyone understood exactly what you were doing and what you were talking about. And I can understand that that is the point that I would imagine that you would have to determine whether you were judicially defensible in making that final determination. Is that correct?

Ms. Ross. Yes.

Mr. Campbell. Now, Mr. Matsui was pursuing some questions a little bit earlier about the Justice Department, OMB, and HHS. I think we have established that the Justice Department and your general counsel, and some of the things you sought.

I do not want to go too far into OMB. I understand that from time to time there are differences between agencies and OMB and requests go up, and I also understand how the Government works. And, in many instances, there has to be a reconciliation between agencies and OMB, and that does take place, as much as we have reconciliation from time to time between the Budget Committee and committees in this Congress. So, I do not find it unusual.

The only thing I found unusual about this whole process was the length of time you have addressed HHS's problem with the number of requests that you wanted to review, one of, I think you said, 59,000 pages. And that you had to review it entirely to make these determinations.

I would only ask you this: How long has OMB had information on which this committee might have acted that they did not act? Or do you know the answer to that?

Ms. Ross. To my knowledge, Mr. Campbell, the first time information was given to the Office of Management and Budget was in February. I would stand corrected if anyone had other knowledge of that, but it was the middle to end of February.

Mr. Campbell. Middle to end of February. And then, I understand, from the line of questioning from Mr. Matsui, there was some difference and then did you seek some reconciliation of thought after that, or what?

Mr. O'Shaughnessy. Could I speak to that, please? The discussions that took place, and I think this is important to have in the record, mainly involved legal considerations, and, again, involved discussions between the Department of Justice lawyers and the Health and Human Services lawyers and the OMB lawyers.

This is not uncommon, given the fact that the Department has approximately more than 40,000 lawsuits pending. The Department of Justice represents the Department in court; so it seemed entirely appropriate.

Mr. Campbell. But your determination with OMB was on a legal ground on the criteria, and establishment of criteria, not on a dollar mark; is that correct?

Mr. O'Shaughnessy. I cannot say it excluded dollar considerations.

Mr. Campbell. I have trouble. OMB rarely does that.

Mr. O'Shaughnessy. That would come as a major surprise to everyone, I am sure. I do not know if I could put a percentage on it.

Mr. Campbell. What you are saying is that HHS developed their criteria and then whatever fell there fell, and without establishing a dollar boundary. And that when you went in, you went in discussing it from a legal standpoint and defending what you had done. Is that correct?

Mr. O'Shaughnessy. Mainly that, yes, sir; I cannot say it was entirely exclusively that.

Mr. Campbell. Was there a major modification?

Mr. O'Shaughnessy. Again, it had to do with the Department of Justice concerns about how to define these extraordinary circumstances, which should take into consideration the fact that a good faith effort, as reflected in the corrective action process, should be further reflected in the realities of these programs.

For example, if it seemed to be a good plan, presumably, the error rate should not go up quite a bit, or it should not have the highest error rate in the country.

Mr. Campbell. So, you discussed all of these things from a judicial standpoint and from a defense of criteria, and then you made some modifications based on recommendations of what would or would not be judicially defensible, so that it would be a criteria that would be applied evenly and could be defended. Is that correct?

Mr. O'Shaughnessy. Yes.

Mr. Campbell. OK. Well, thank you very much. I do not want to go ahead. I listened to the other testimony and I got a good deal from Mr. Matsui's questions and, hopefully, we have at least cleared up in my mind some of the questions that were raised there, and I do appreciate your testimony.

Mr. **Pease**. Thank you, Mr. Campbell. I have some questions too, Ms. Ross.

First, on page 9 of your testimony, you refer to the 16.5-percent error rate in 1973, and you say 16.5 percent of all AFDC payments were erroneous, either overpayments or benefits paid to those who were not eligible at all.

I take it from that then that the error rate does not include errors where there was an underpayment?

Ms. Ross. That is correct. This is a payment error rate based on erroneous payments that are made. If there is an underpayment, obviously, no payment was made. I would, however, like to point out that we do get information from the States on underpayment error. The underpayment error is somewhere around 1 percent. We also require that the States include in their corrective action plan activities that would address correcting underpayment problems as well. So, while we do not believe it is appropriate to include it, in terms of erroneous payments made, because none were made, we are very concerned about it even though it is at 1 percent or a little under a 1-percent rate. I would be happy to submit past years underpayment rates which are very small in comparison to overpayments and payments to ineligibles.

[The following was subsequently received:]

Recent History of the Underpayment Error Rate

AFDC-Quality Control regulations require States to measure and report the incidence of erroneous underpayments to recipients—cases where a family was eligible for assistance at a given payment level and the State or locality incorrectly paid the case less than the rules would require.

Tracking this underpayment data is useful for corrective action purposes and for management improvement to assure an equitable as well as an efficient AFDC program. Disallowances, however, are not taken based upon underpayment error rates since no erroneous payment is involved leading to misspent Federal Financial Participation.

Historically, underpayment error rates have been low, the national averages being less than one percent.

Period:	*Underpayment rate*
October 1979 to March 1980	0.9
April 1980 to September 1980	0.7
October 1980 to March 1981	0.7
April 1981 tc September 1981	0.6
October 1981 to March 1982	0.6
April 1982 to September 1982	0.4
October 1982 to March 1983	0.6

Mr. **Pease**. So, the error rate that we are talking about consists entirely of money paid from the public treasury which should not have been paid?

Ms. Ross. That is correct.

Mr. **Pease**. OK. Is my understanding correct that it was OMB that suggested that you ought to have a distinct cutoff point at which some States would lose their waiver and face the full penalty, rather than the system that was proposed at one time, that there be a sliding scale at which waivers would be granted, with a sliding penalty?

Ms. Ross. No, sir; that is not exactly correct. As I indicated, during the time before it even left the Department, we were looking at various methodologies that we could use. I, people on my staff, and the other people in the Department had some concerns that perhaps we should be looking for some kind of a cutoff. What was sent over to OMB did not have that in it, and that point was again raised by OMB. But that decision was not made solely because of OMB. There was a great deal of discussion in the Department and with Justice on that as well, and prior to it ever going to OMB.

Mr. Pease. I am glad to hear that. It seems to me if there is going to be a penalty for failure to meet the target that it has to be a penalty. And, it would seem to me just common sense, that the sliding percentages plan was not really appropriate.

OK. Now, about the lagtime for the error rate. It is a long time, is it not, since we finally got around to announcing the 1981 rates.

When are you going to be announcing the error rates for 1982 and 1983?

Ms. Ross. We would hope to be announcing fiscal year 1982 and the fiscal year 1983 error rates in the near future.

Mr. Pease. Would you care to define near future for us?

Ms. Ross. Well, we have the error rates ready to go. And I would not expect there to be any delay in terms of getting them through the Department and out. I cannot issue them until they go through the whole clearance process, but we are very close. I do not think there will be a problem getting the error rates out at all.

Mr. Pease. Could we establish a range of not more than or not less than?

Ms. Ross. I would say not more than 1 to 2 months maximum.

Mr. Pease. And you will be announcing 1982 and 1983 at the same time?

Ms. Ross. We will be announcing 1982 first. There will be some delay between 1982 and 1983, but we will get 1983 error rates out, as soon as possible after the 1982 rates are released.

Mr. O'Shaughnessy. Ms. Ross might want to seek advice of counsel. [Laughter.]

Mr. Pease. If you have got them ready to go, that indicates to me that you have already gone through the process of deciding who qualified and who did not.

Ms. Ross. No, no. Let me clarify. This is simply to issue error rates. We have not requested waiver requests from the States for 1982. What happens is when the error rates go out, then the States are notified that they have 65 days to submit a waiver request. We are very hopeful that, as opposed to the situation we had for 1981, where it took a little over 2 years to reach a decision from the point at which the States were notified, that we would be looking at a greatly speeded up process of maybe 4 to 6 months.

Mr. Pease. Four to six months?

Ms. Ross. Hopefully. On the outside, that is what we are hoping.

Mr. Pease. And will you be using the same methodologies for 1982 and 1983 that you used for 1981?

Ms. Ross. I do not know that we will be using exactly the same method, the precise methodology. Clearly, we will be adhering to the statute and regulations that govern the descriptions of what constitutes extraordinary circumstances, the acts of God type of occurrences that are generally beyond the State's control as well as corrective action. But, I would not want to mislead the committee by implying that every "t" will be crossed the same and every "i" dotted the same. But, clearly, what we have is experience that we can build on for the future in terms of reaching some mutually agreeable way of evaluating the waiver requests. And when I say "mutually agreeable," I mean to our Department, as well as serving the needs and concerns of Congress and the States, who are anxious to get the results.

Mr. PEASE. When we discuss various years, 1981, 1982, and 1983, are those fiscal years or calendar years?

Ms. ROSS. Those are fiscal years.

Mr. PEASE. Fiscal years. Now, fiscal year 1984 ended 7 months ago. When will you be announcing the error rates for fiscal year 1984?

Ms. ROSS. We have taken a lot of steps in the Office of Family Assistance to speed up the issuance of error rates. And the goal that we set for ourselves was to try to have error rates ready to go out to the States within 10 to 11 months after the close of the fiscal year.

Part of the thing, as I described earlier—and I am not sure you were present at the time I went through the description of the whole process for State review, Federal review, the reconsideration and appeal processes that we have tightened up the timeframes in terms of appeals on difference cases by making the States adhere to timeframes and making ourselves adhere to the timeframes for this activity. We have also tightened timeframes for the review of the cases themselves. We issued a regulation that requires that within 75 days after the close of the month, 90 percent of the cases have to be completed by the States; within 95 days, 95 percent, and within 120 days, 100 percent. And we are also imposing the same standards on our Federal QC reviewers.

In the past, it has taken as much as a year and a half, or more, to generate error rates. And we are very hopeful that we will be able to get it under a year. So, we are hoping to have the fiscal year 1984 error rates in the fall.

Mr. PEASE. So you will be announcing, hopefully, those error rates for 1984 by August or September of this year?

Ms. ROSS. September or October is more likely.

Mr. PEASE. And then there will be, what is it, 60 days the States have to file requests for waivers?

Ms. ROSS. Sixty-five days.

Mr. PEASE. Sixty-five days. And then after the 65 days are up, what are you aiming for?

Ms. ROSS. We are hoping, based on States' experience in writing waiver requests, our experience in reviewing waiver requests and with the Secretary's decision on what factors she wants to take into consideration, that it should take no more than 4 to 6 months.

Mr. PEASE. We are taking now a year to get out the error rate, 2 months, a little over, for the States to file waivers, and 4 to 6 months. So we are looking at 1½ years for the process.

Ms. ROSS. The entire process.

Mr. PEASE. Do you think that is reasonable?

Ms. Ross. I think it is reasonable. I know that one of the concerns that Mr. Matsui raised last October when I testified before this committee was about States having good data available for them to use in terms of their continuing corrective action efforts. The States, since they are doing reviews on an ongoing basis, do have information about what their error rate is. So it would be a mistake for any State to wait until they get the federally released error rate, because they get information every month, as they complete these reviews, on the percent of error that they have in their State. So they can use that information to hone in and focus on areas that are of particular concern and problematic in terms of errors.

Mr. Campbell. Would the gentleman yield a moment?

Mr. Pease. I would be happy to yield.

Mr. Campbell. In that regard, let me ask you something. How long does it take the States to get the data in to you?

Ms. Ross. We had some problems in the past, but, based on the new regulation that we issued, we now require that the State must submit 90 percent of all cases by 75 days after the close of the month, 95 percent must be completed after 95 days; and 100 percent must be completed after 120 days.

Mr. Campbell. You could have a 4 month lag at the end of the year before you get the data in.

Ms. Ross. It could be even longer than that, Mr. Campbell, because that is just when we get the data. Then, after we review it, and that takes time—the State may want to challenge a Federal finding, and that is when we get into that whole reconsideration and appeal process, resolving so-called difference cases. And that is the other part of the process that we have tightened up on. The regulations now specify that States have 28 days to appeal or to request a reconsideration of a Federal finding. We are adhering to that 28-day timeframe, and we are also adhering to the same timeframe in terms of our responding to the States.

Mr. Campbell. All of that process that I just went through with you, is that what you are trying to get done in the 11-month period?

Ms. Ross. Yes, sir, we are.

Mr. Campbell. OK.

Ms. Ross. That is right.

Mr. Campbell. And then it would be after that process that you would have some action taken against the State or they may apply for a waiver on action which would not be within that period, but would be after that?

Ms. Ross. That is right, it would be after that period because up until that period, we do not have the final error rate.

Mr. Campbell. I just want to be sure I understood the whole process there.

Ms. Ross. Thank you.

Mr. Campbell. OK.

Mr. Pease. One or two final questions: Ms. Ross, what would be your opinion of the possibility of statutory deadlines being enacted by Congress for this process?

Ms. Ross. I do not feel that statutory deadlines are necessary, based on the fact that we are taking this situation very seriously, and we are moving and have a number of efforts to speed up the process. In fact, I could submit even more detailed information in terms of things we are doing to try to speed up the generation of the error process. So I do not feel statutory deadlines are necessary.

Mr. PEASE. If we were to go to statutory deadlines, would you think it appropriate that we might put in fiscal penalties for the Department not meeting those deadlines except under extraordinary circumstances?

Ms. ROSS. Well, since I would not favor statutory timing, I do not think I would care to discuss the amendments to that basic bill at this point.

Mr. PEASE. Well said.

Ms. Ross, we have a series of questions that Mr. Ford would like to submit to you for submission of your answers for the record.

If there are no other questions or comments, this concludes the hearing.

Thank you very much for being here.

Ms. ROSS. Thank you.

[Whereupon, at 12:18 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

THE SECRETARY OF HEALTH AND HUMAN SERVICES,
Washington DC, June 18, 1985.

Hon. DANIEL ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: I am deeply concerned by your letter of May 16, 1985, which expressed reservations about the reliability of the cost estimate attributable to H.R. 1279, a bill to amend the AFDC quality control system. Your principal objection appears to be the Department's use of the President's FY 1986 budget proposal, which assumes that the fiscal disallowances for erroneous AFDC payments made in FY 1981 and FY 1982 will be taken in FY 1985. I trust that this letter will make it clear that the Department intended to inform rather than mislead the Committee regarding the fiscal consequences of H.R. 1279.

In a letter to the Committee dated April 24, 1985, the Department estimated that the cost of enacting H.R. 1279 would amount to approximately $1.5 billion in the period from FY 1985 through FY 1990. This cumulative estimate was supplemented by a table which provided a breakdown of individual fiscal year cost estimates.

In estimating the costs of H.R. 1279, the Department, in accordance with its standard practice, relied on the assumptions of the President's most current budget as a baseline. This budget assumes that disallowances for FY 1981 and FY 1982 will be acted upon in FY 1985, disallowances for FY 1983 and FY 1984 will be acted upon in FY 1986, and disallowances for FY 1985 and beyond will be acted upon two years hence.

As was explained to Committee staff in a written explanation of our cost estimates on H.R. 1279, the Department used these assumptions from the President's budget in determining the impact of the legislation for individual fiscal years. However, in an effort to be as accurate as possible while working within these fiscal year distributions, the Department also used the most current estimated error rates for FY 1982 and FY 1983 to update our error rate projections for these years as well as for future years.

As you point out in your letter, it is now clear that disallowances for excess errors in FY 1982 will not be taken in FY 1985. However, this fact does not in any way undermine the reliability of our cumulative five-year cost estimate. While the timing of fiscal disallowance collections may cause individual year budget projections to fluctuate and thus affect the individual fiscal year cost estimates, the cumulative estimated cost of $1.5 billion by FY 1990 would remain unchanged.

I trust that this explanation satisfies your concerns.

Sincerely,

MARGARET M. HECKLER,
Secretary.

RESPONSES TO SUBCOMMITTEE QUESTIONS

Submitted by Lawrence J. DeNardis, Acting Assistant Secretary for Legislation, Department of Health and Human Services

Item #1

Question:

Please submit a copy of the weights and factors used by OFA to evaluate State waiver requests.

Answer:

The weights and factors covered instances where States filed waiver requests based on timely developed and implemented corrective action plans reasonably designed to meet their target error rates. These weights and factors (based on criteria published in Federal regulations at 45 CFR 205.42(g) on January 25, 1980) were sent to the 28 States subject to potential disallowances for fiscal year 1981 on March 10, 1983.

A copy of the weights and factors used by OFA to evaluate State waiver requests for fiscal year 1981 follows:

WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	MAXIMUM VALUE
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	30
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20

	MAXIMUM VALUE
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX,IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45
3. Systems Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) (P) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users - Other indicators presented by the State	35

(P) Primary

	MAXIMUM VALUE
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35

(P) Primary

	MAXIMUM VALUE
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15

(P) Primary

MAXIMUM VALUE

Weighting

Factor A subscore _____ x .30 =
B _____ x .20 =
C _____ x .25 =
D _____ x .25 =

Score: _________

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

Item #2

Question:

Please supply any documents pertaining to the submittal sent by HHS to the Office of Management and Budget on the 1981 AFDC waiver requests made by 28 States. These documents should include the transmittal letter, if any, and the materials which explain the methodology which would have resulted in $50-60 million in waivers. If OMB made a written reply to these documents, please provide the reply as well.

Answer:

A copy of the materials sent to OMB follows:

DEPARTMENT OF HEALTH & HUMAN SERVICES
Office of the Secretary

Washington, D.C. 20201

FEB -8 [illegible]

Mr. John F. Cogan
Associate Director for Human Resources,
  Veterans and Labor
Office of Management and Budget
Washington, D.C. 20503

Dear ~~Mr. Cogan:~~ John,

Enclosed are draft letters to States informing them of decisions on their requests for waivers of disallowances related to AFDC and Medicaid error rate targets under the Michel Amendment. The letters (28) provide details on the scoring used as the basis for the waiver decision in each case. There are additional letters reporting Medicaid waiver decisions for four States (Delaware, Rhode Island, Alaska, and West Virginia) which will be forwarded to you as soon as they are completed.

I have also enclosed a listing of the 1982 AFDC error rates and disallowance amounts by State. You should be aware that States have not yet been informed of these data nor has anyone in the Congress.

Yours truly,

John J. O'Shaughnessy
Assistant Secretary for Management
  and Budget

Enclosures

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

[illegible]

The Honorable George C. Wallace
State Capitol
Montgomery, Alabama 36130

Dear Governor Wallace:

On March 10, 1983, Alabama was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 17, 1983, Alabama submitted a request for waiver and this letter is to advise you of my final decision to waive 67.50 percent of the disallowance amount. This results in a reduction of the potential disallowance from $47,000 to approximately $15,275.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Pensions and Security
Regional Director, HHS, Region IV
Regional Administrator, OFA, Region IV

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Alabama

Waiver Evaluation Findings

Alabama requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). In its request, the State also cited the impact of the implementation of the Low Income Energy Assistance Program (LIEAP) as a factor beyond its control which influenced its ability to meet its target error rate. While it was not clear if the State was formally requesting consideration of a waiver based on extraordinary circumstances under 45 CFR 205.42(g)(2)(i), (ii), (iii) and (iv), this factor cited by the State was fully weighed and evaluated as if a formal request had been made under one of these provisions. States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

With respect to the State's contentions regarding the impact of LIEAP implementation, we arrived at the following findings and conclusions. Alabama failed to demonstrate the extraordinary nature of this circumstance, failed to provide sufficient information to establish the extent to which the circumstance negatively affected the AFDC program, and provided no information to establish the extent to which the circumstance affected the payment error rate during the review period. The State also failed to adequately document management efforts to respond to the situation. We, therefore, could not consider this circumstance as a basis for granting a waiver.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Alabama received a total weighted score of 67.50 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Alabama received a weighted score of 22.50 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The involvement of top management in corrective action was indicated by enunciation of goals, quality of QC reviews, implementation of the required wage match and access by State staff responsible for corrective action. The State also maintained an active AFDC corrective action committee with top management participation and maintained county accountability for implementing local corrective actions. Finally, considerable resources were devoted to the development of a more responsive automated system which would relieve some of the manual workload on the eligibility workers and possibly reduce the need for additional staff. Problems were noted with the impact of resource cutbacks on case processing, the late submission of corrective action plans and the untimeliness of quality control reviews. The review also noted problems with the inappropriate assignment of the QC statistician to clerical duties and the lack of clear QC supervisory responsibilities for case control. The absence of performance standards for agency managers was also seen as a deficiency, in view of the fact that there was no formal system in place for ongoing monitoring of corrective action progress between semi-annual corrective action committee meetings.

Alabama received a weighted score of 17 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used, and systems resources were accessible to individuals responsible for corrective action. The State also produced an adequate range of reports to meet program needs, in spite of accuracy and timeliness problems. There were no new major outputs during FY 1981 which would require training, and training on existing outputs was adequate. Deficiencies were noted in the inappropriate or insufficient use of certain outputs and the delays in transmission of "action due" printouts to the counties.

Alabama received a weighted score of 18.50 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The State analyzed the sample by error elements and conducted an adequate analysis regarding nature/source of errors, geographic breakdown, and statistical testing. The State included a narrative explanation of QC data analysis as part of each QC period's corrective action plan, and management reviews and corrective action committee meeting minutes indicated that informal program analysis was conducted on an ongoing basis. The State failed to submit the October 1980 - March 1981 QC tables on a timely basis and Federal rereview findings were not analyzed to determine the true frequency of errors. Alabama might also have benefited significantly from developing interim reports based on the ongoing State sample. This would aid in early detection of error concentration and trends and allow more responsive and timely corrective action. In view of Alabama's large sample, error prone profiling could also have been useful, particularly in targeting scarce staffing resources to error-prone situations, thereby maximizing error reduction efforts. A final deficiency noted was that specific responsibility for program analysis was not designated, and formal, written program analysis was not a part of the corrective action process. As a result, the subsequent corrective actions did not reflect such analysis.

Alabama received a weighted score of 9.50 (of a possible 25) for its management and execution of the corrective action process. The State committed itself in the corrective action plans to further study of possible corrective actions that might ultimately reduce the errors identified. Alabama also conducted pilot projects and Staff Development Unit workshops around proposed corrective actions, and involved county staff in the planning process. Finally, the State focused county related monitoring activities in the Office of Field Operations, had a process in place within the corrective action committee to amend and discontinue corrective actions as necessary, and implemented four of the thirteen corrective actions indicated in the October 1980 - March 1981 corrective action plan.

The State's management of the corrective action process was deficient because the majority of the indicated corrective actions were actually part of the planning process and not final products, and few of the corrective actions were focused on identified error areas, on operational issues identified in the counties, or on error-prone counties. The State did not establish milestones or expected completion dates for any corrective action identified in the October 1980 - March 1981 or the April - September 1980 corrective action plans. Target dates would be essential to insure completion of the activities to allow analysis of the findings in the development of specific "action-oriented" corrective actions. In addition, the State did not address the allocation of resources, despite significant staffing shortages. It was not demonstrated that corrective actions were implemented in a timely fashion or that monitoring of this implementaion took place. The State failed to implement most of the corrective actions specified in the October 1980 - March 1981 corrective action plan. Finally, the State did not evaluate actions based on actual costs and benefits and related indirect outcomes.

Attachment

ATTACHMENT

ALABAMA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	75
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g., policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g., computer time, additional staffing) - Other indicators as presented by the State	50	30
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	25

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	85
1. Use of Data (P) - Use of available source data (e.g., BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g., staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g., management information systems) - Consideration of alternatives to current system (e.g., assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g., monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g., reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	20

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	74
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	19
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	25
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	20

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	38
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	5
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	10
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	18
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 75 x .30 = 22.50
B 85 x .20 = 17.00
C 74 x .25 = 18.50
D 38 x .25 = 9.50

Score: 67.50

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Bruce Babbitt
State House
Phoenix, Arizona 85007

Dear Governor Babbitt:

On March 10, 1983, Arizona was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 12, 1983, Arizona submitted a request for waiver and this letter is to advise you of my final decision to waive 81.35 percent of the disallowance amount. This results in a reduction of the potential disallowance from $202,000 to approximately $37,673.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Director, Department of Economic Security
Regional Director, HHS, Region IX
Regional Administrator, OFA, Region IX

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Arizona

Waiver Evaluation Findings

Arizona requested a waiver on the basis of sudden and unanticipated workload changes pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

Arizona cited a workload increase due to increased AFDC and Food Stamp caseloads. The State indicated that this circumstance led to an increase in errors, but did not provide sufficient information to demonstrate a causal relationship. The State cited the copper strike, increased unemployment, and the 1977 Food Stamp Regulation and showed how these helped to increase the AFDC caseloads. However, specific connections between these circumstances and the error rate were not sufficiently supported. Moreover, the State request provides no information on the management actions taken to respond to the circumstance and limit its impact.

Arizona also cited AFDC and Food Stamp policy changes mandated by DHHS and USDA and discussed briefly the effect upon the workload. Further, the State argued that there was insufficient training of field staff due to inadequate staffing resources of the Policy and Training Unit. The State, however, did not sufficiently support the extraordinary nature of these circumstances, their effect on the AFDC program, or management's efforts to respond. Moreover, the specific impact on types of errors and error causes was not discussed. We, therefore, could not consider these circumstances as a basis for granting Arizona's waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Arizona received a total weighted score of 81.35 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Arizona received a weighted score of 24.00 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. Corrective action goals were well enunciated through the planning and budget process. QC reviews were complete and timely. The wage match was conducted throughout the period, as required. Access to top management of those responsible for corrective action was adequately documented. The State demonstrated management's accountability for corrective action through the planning and budgeting process. Performance standards reflect accountability for error reduction. Moreover, several corrective action initiatives, not addressed by other elements, were undertaken by the State during the period. These included the Family Assistance Work Method (FAWM), manual revisions, and many automated systems. However, the CAP due December 31, 1980 was omitted and there were deficiencies regarding resources, especially staffing. Additionally, corrective action planning responsibilities were not adequately assigned (responsibility for completion of the CAP was not assigned).

Arizona received a weighted score of 18.60 (of a possible 20) for its efforts in demonstrating the sufficiency and quality of systems designed to reduce errors. The State utilized available source data (e.g., Beneficiary and Earnings Data Exchange - BENDEX, Systems Data Exchange - SDX). It developed and implemented many systems enhancements. Alternatives to the current system were considered, and systems outputs were sent to and utilized by appropriate personnel. Training was provided to staff on the use of outputs. However, management computer reports were not timely, and response time was slow due to the overloaded central processing unit. Operational problems with the manual monthly status reporting system were identified resulting in its not being used in the field. This was considered a serious deficiency since earned income was the major source of errors.

Arizona received a weighted score of 22.50 (of a possible 25) for its efforts in demonstrating its use of systems and procedures for statistical and program analysis of QC and related data. All reports were complete and timely. The State undertook many appropriate kinds of statistical analysis for corrective action purposes. Narrative explanations of QC data were regularly transmitted to those responsible for program analysis. Operational analysis was an ongoing part of the corrective action planning process. Full score was not given because there was no written program analysis for the April - September 1980 review period (for which period there was no CAP).

Arizona received a weighted score of 16.25 (of a possible 25) for its efforts in demonstrating its management and execution of the corrective action process. Several operational/management activities appeared to have had a positive effect, and some corrective actions from the prior period, such as FAWM and

Assistance Payments Information System (APIS) enhancements, continued through FY 1981. The State involved county and local staff significantly by requiring district plans. Local staff were also involved in the development and implementation of projects such as FAWM. With the exception of certain systems actions, corrective actions were fully carried out. Corrective actions could be amended, and to a certain extent, were evaluated via ongoing data, although costs/benefits and related indirect outcomes were not addressed. The State did not demonstrate that all actions were achieved timely, and informal monitoring took place only through quarterly meetings. Although the CAPs provided no milestones, credit was given for start and end dates for certain actions and interim target dates in district plans. There were problems with allocation of resources. Finally, the State did not address several of the top error elements.

Attachment

ATTACHMENT

ARIZONA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	80
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g., computer time, additional staffing) - Other indicators as presented by the State	50	35
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	25

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	93
1. Use of Data (P) - Use of available source data (e.g., BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g., staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g., management information systems) - Consideration of alternatives to current system (e.g., assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g., monthly reporting, retrospective budgeting, local agency monitoring systems)	45	43
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g., reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users - Other indicators presented by the State	35	30

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	90
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	25

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	65
1. Assessment of Corrective Actions	15	8
(P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors		
- Other indicators presented by the State		
2. Corrective Action Planning	25	15
(P) - Establishment of milestones		
(P) - Allocation of resources		
- Assessment of costs and benefits		
- Pilot projects		
- Involvement of county or local agency staff, as appropriate		
- Other indicators presented by the State		
3. Implementation of Corrective Action Plan	45	35
(P) - Implementation monitoring		
(P) - Achievement of milestones/implementation of corrective action tasks		
- Ongoing process for amending or discontinuing of corrective actions, as necessary		
- Other indicators presented by the State		
4. Evaluation of Corrective Actions and Their Implementation	15	7
Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes		

(P) Primary

Weighting

Factor A subscore 80 x .30 = 24.00
B 93 x .20 = 18.60
C 90 x .25 = 22.50
D 65 x .25 = 16.25

Score: 81.35

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable George Deukmejian
State Capitol
Sacramento, California 95814

Dear Governor Deukmejian:

On March 10, 1983, California was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 18, 1983, California submitted a request for waiver and this letter is to advise you of my final decision to waive 70.25 percent of the disallowance amount. This results in a reduction of the potential disallowance from $35,067,000 to approximately $10,432,432.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Director, Department of Social Services
Regional Director, HHS, Region IX
Regional Administrator, OFA, Region IX

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: California

Waiver Evaluation Findings

California requested a waiver on the basis of a number of factors influencing its ability to meet its target error rate which affected individual counties, with supporting documentation provided by these counties pursuant to 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). While it was not clear if the State was formally requesting consideration of a waiver based on extraordinary circumstances under 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv), the above factors cited by the counties were fully weighed and evaluated as if a formal request had been made under one or more of these provisions.

States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following three conditions: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its adverse impact.

With respect to the information provided by the State and the counties in this regard, we arrived at the following conclusion. The State and counties failed either to demonstrate the "extraordinary" nature of the circumstance and how it was beyond their control or they failed to provide sufficient information to establish the extent to which the circumstance negatively affected the AFDC program and payment error rate during the review period. The State and counties also did not provide sufficient information about management's efforts to respond to the circumstance. In many instances, one or more of the three conditions mentioned in the paragraph above were not even discussed. We, therefore, could not consider these factors as a basis for granting a waiver pursuant to 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv).

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. California received a total weighted score of 70.25 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.) The information provided with respect to the factors cited above was also considered as to its significance to the State's request for a waiver on the basis of its good faith effort to timely develop and implement a corrective action plan reasonably designed to meet its target error rate, pursuant to 45 CFR 205.42(g)(2)(v).

California received a weighted score of 20.10 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The Department of Social Services (DSS) Manual (Chapter 15), the State law which provided performance standards and county sanctions, the renewed emphasis on corrective action and the implementation of the wage match all pointed to management's commitment. Additionally, efforts were made to improve the quality of QC reviews. QC and corrective action responsibilities were appropriately assigned and counties were held accountable by law to the State for error reduction based on valid QC samples developed for the 35 largest counties. Finally, the State began major initiatives during this period, including the Statewide Public Assistance Network (SPAN), the Franchise Tax Board Asset Clearance Match, and county systems (Welfare Case Management Information System-WCMIS and Case Data System-CDS) which were beneficial in reducing errors. On the other hand, problems continued to exist in the timeliness and quality of QC reviews despite recommendations by the Office of Family Assistance (OFA) Regional Office. An addendum to the FY 1981 CAPs was timely but the CAPs themselves were seven and eight months late. WIN and enumeration errors were excluded from county sanctions although these were the third and seventh highest error elements and eventually county sanctions were waived altogether. While responsibility for corrective action was clear at both the State and county level, accountability for corrective action was not clear except at the Director's level. Performance standards were documented at the county level but not at the State level.

California received a weighted score of 17.40 (of a possible 20) for its efforts in demonstrating the sufficiency and quality of its systems designed to reduce errors. The State provided counties with data from a number of sources; however, the Beneficiary and Earnings Data Exchange (BENDEX), the one major system available to the State, was not utilized. Systems resources were made available to individuals responsible for corrective action. Local monitoring systems were used by some counties to analyze QC data. QC reports, the Management Information System (MIS) and other data were sent to responsible staff and training on new systems was provided. Most of the existing systems (and alternatives under study) were designed to reduce errors but the State Error Case Determination Studies indicated some utilization problems because of the timing and format of the data transmitted. However, most of the State-designed systems were manual, requiring worker-initiated inquiries and the use of multiple forms. For a State the size of California, more computer-based information should have been directly provided.

California received a weighted score of 17.75 (of a possible 25) for its efforts in demonstrating its use of systems and procedures for statistical and program analysis of QC and related data. State QC forms were complete and timely with the exception of the October 1980 - March 1981 tables, which were one month late. The State sample was analyzed by error elements and the augmented sample was a major effort. Narrative explanations of QC data analysis were appropriately sent to program analysts. However, State level program analysis was limited to systems-related actions. Although referenced throughout, no documentation was presented to substantiate any other program analysis. Moreover, county level analysis was not uniformly well done and in some cases was non-existent. No State concern for this problem was evident except for material in the error-cause determination studies which were limited in scope and followed a prescribed format. The State's analyses of trends and identification of nature/sources of errors were adequate, but analysis of Federal rereviews was not really considered for corrective action purposes. Error element number one - deprivation - should have been separated into its various factors (e.g., absence, incapacity, etc.). The augmented sample, with its county breakdowns, was a major effort, but there should have been more of a State role in setting standards. In general, the State failed to adequately involve itself in the area of statistical analysis, with the result that some large counties with significant errors did not complete adequate analyses.

California received a weighted score of 15 (of a possible 25) for its efforts in demonstrating its management and execution of the corrective action process. The State's assessment of corrective actions addressed all but two of the major error elements. Some targets and milestones were established by the State for systems-related actions while some, but not most, counties established their own targets or milestones. This inconsistent and limited establishment of target dates and milestones is a significant shortcoming in a State as large as California. Staff were allocated for both State and county corrective action planning but there was insufficient documentation to support that resources were allocated for actual implementation. Monitoring occurred informally during the normal course of work and through State presence on county panels. Although some credit was given for a general evaluation of QC data, no documentation of specific evaluations of corrective actions was presented. County evaluations were irregularly reported to the State. A State as large as California, which depends on counties for the implementation of many corrective actions, should have had a more formal monitoring and evaluation process and better State/county coordination. As a result, only about half of the corrective actions in the CAPs were actually implemented.

Attachment

ATTACHMENT

CALIFORNIA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	67
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g., policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer computer time, additional staffing) - Other indicators as presented by the State	50	25
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	22

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	87
1. Use of Data (P) - Use of available source data (e.g., BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	17
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g., staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g., management information systems) - Consideration of alternatives to current system (e.g., assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g., monthly reporting, retrospective budgeting, local agency monitoring systems)	45	40
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g., reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	30

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	71
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	19
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	27
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	15

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	60
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	10
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	30
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 67 x .30 = 20.10
B 87 x .20 = 17.40
C 71 x .25 = 17.75
D 60 x .25 = 15.00

Score: = 70.25

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable Richard D. Lamm
State Capitol
Denver, Colorado 80203

Dear Governor Lamm:

On March 10, 1983, Colorado was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Colorado failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Colorado requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA), respectively.

This letter is to advise you of my final decision to waive 80 percent of the AFDC disallowance amount. This results in a reduction of the potential disallowance from $1,898,000 to approximately $379,600. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 79.4 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $179,910 to approximately $37,061. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Executive Director, Department of Social Services
Regional Director, HHS, Region VIII
Regional Administrator, OFA, Region VIII
Regional Administrator, HCFA, Region VIII

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Colorado

Waiver Evaluation Findings

Colorado requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). The State also cited certain other factors affecting its ability to meet its target error rate. These included: policy changes in the Food Stamp, AFDC, Child Support and Low Income Energy Programs, which resulted in an increased workload; the loss of Comprehensive Employment Training Act funds causing a reduction in support staff; the complexity of the AFDC program; and fraud barriers which deferred the reduction of client-caused errors, pursuant to 45 CFR 205.42(g)(2)(i), (ii), (iii) and (iv). While it was not clear if the State was formally requesting consideration of a waiver based on extraordinary circumstances under 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv), the above factors cited by the State were evaluated as if a formal request had been made under one of these provisions.

States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) and (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its adverse impact.

With respect to the information provided by the State in this regard, we arrived at the following conclusion. The State failed to demonstrate the extraordinary nature of these circumstances and failed to provide sufficient information to establish the extent to which the circumstances negatively affected the AFDC program and the payment error rate during the review period. The State also did not indicate what management's efforts were to respond to the circumstances. We, therefore, could not consider these factors as a basis for granting a waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Colorado received a total weighted score of 80 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Colorado received a weighted score of 25.50 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The members of the corrective action panel included top management. The County Quality Control System had a pass-along of fiscal sanctions to the counties. Counties developed their own corrective action plans, and performance contracts held top management responsible for corrective action decisions. The Federally required wage match was operational. Colorado also undertook initiatives to improve the corrective action process through the development of the Client Oriented Information Network (COIN), the monthly reporting experiment and assignment of support rights. However, the State had problems in meeting the QC verification standards. IV-D information was not readily accessible to QC reviewers, and corrective action plans were not submitted timely. Performance standards for managers reflected responsibility for maintaining the QC system but did not specifically address error reduction.

Colorado received a weighted score of 17 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. Systems resources, including Management Information System (MIS) reports, were extensive and available for data analysis, and reports were developed for State and county managers for use in assessing county performance. Colorado had also implemented assignment of support by operation of law, use of Social Security Number (SSN) tapes and the monthly reporting experiment in Denver. However, there were problems in getting outputs to the workers in usable form for determination of eligibility and payment, and although these problems were cited by the State, the State failed to make improvements. The State asserted that the corrective action panel reviewed systems outputs, but there was no documentation of further utilization.

Colorado received a weighted score of 22 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. Various statistical analyses were performed on the QC findings for FY 1981, including a breakdown by county, assessments of the statistical significance of findings and examination of the nature/source and causes of errors. The narrative analysis was adequate, and the documentation indicated that the list of addressees included members of the corrective action panel. The summary analysis and the corrective action plans addressed most of the major error clusters, and program analysis was considered to be effective for earnings and absence errors. However, program analysis for assignment and enumeration was ineffective, and the QC tables were not submitted timely.

Colorado received a weighted score of 15.50 (of a possible 25) for its efforts in demonstrating management and execution of the corrective action process. Credit was given for the error-specific corrective actions that were developed for the period and for the allocation of resources for COIN and the County Quality Control System. A system was in place for monitoring the implementation of corrective actions, and corrective actions were amended as necessary even though there was no evidence of a formal process. However, the major error elements of WIN and contributions were not addressed, milestones were not established in the planning process, targeted goals were missed repeatedly and corrective actions, although evaluated in general terms, were not evaluated based on actual costs and benefits and related indirect outcomes.

Attachment

ATTACHMENT

COLORADO
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	85
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g., policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g., computer time, additional staffing) - Other indicators as presented by the State	50	37
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	28

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	85
1. Use of Data (P) - Use of available source data (e.g., BENDEX, IDIX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g., staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g., management information systems) - Consideration of alternatives to current system (e.g., assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g., monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g., reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	20

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	88
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	18
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	25

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	62
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	12
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	17
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	25
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	8

(P) Primary

Weighting

Factor A subscore 85 x .30 = 25.50
B 85 x .20 = 17.00
C 88 x .25 = 22.00
D 62 x .25 = 15.50

Score = 80.00

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v))

STATE: COLORADO

WAIVER EVALUATION FINDINGS

I. Corrective Action Plan (CAP) (42 CFR 431.802(f)(2)(v))

A. Demonstrated Commitment by Top Management

41 points (weighted by .20) = score of 8.20

Documentation provided to allow full credit for the following:

- Efforts to assure quality, timeliness, and independence of quality control (QC) reviews, and
- internal organizational improvements.

Documentation provided to allow partial credit for the following:

- Performance standards for staff
- County communication efforts,
- county QC system,
- training activities, and
- submission of CAPs for two out of four review periods, and
- access by staff responsible for corrective action (CA) to top management.

Insufficient documentation provided to allow credit for the following:

- Enunciation of CA goals in agency policy,
- lack of CAPs for two out of four review periods, and
- regular CA meetings at top management and staff levels.

B. Sufficiency and Quality of Systems Designed to Reduce Errors

27 points (weighted by .15) = score of 4.05

Documentation provided to allow partial credit for the following:

- County QC system,
- reports and printouts on CA were available to counties,
- some evaluation of systems in place as a potential CA tool,
- use of available source data, and
- utilization of output results related to CA by responsible staff.

Insufficient documentation provided to allow credit for the following:

- Consideration of alternatives to the current system.

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

75 points (weighted by .15) = score of 11.25

Documentation provided to allow full credit for the following:

- Adherence to MQC data submission requirements,
- analysis of State QC findings by error element, nature source, and geographic concentrations,
- analysis of Federal re-review findings, and
- analysis of program operations.

Insufficient documentation provided to allow credit for the following:

- Provision of narrative explanation of QC data analysis to those responsible for program analysis, and
- regular meetings of CA committees.

D. Management and Execution of CA Process

48 points (weighted by .50) = score of 24.00

Documentation provided to allow full credit for the following:

- Development of CAs for all significant error elements, and
- establishment of milestones.

Documentation provided to allow partial credit for the following:

- Achievement of milestones and target dates,
- involvement of county staff in CA planning, and
- implementation monitoring of CA.

Insufficient documentation provided to allow credit for the following:

- Consideration of allocation of resources, and
- evaluation of CA.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 47.50 ADJUSTED SCORE: 79.40

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

II. Sudden and Unanticipated Workload (42 CFR 431.802(f)(2)(ii))

The State reported it failed to achieve its MQC target due to sudden and unanticipated workload changes caused by the following:

- Changes in the Food Stamp program, and
- cutbacks in CETA positions.

Request denied as State failed to meet the following criteria outlined in our letter of July 22, 1983:

- Stated failed to establish that the increased workload could not have been anticipated, and
- State failed to identify the percentage of caseload affected or the cases impacted.

III. Administrative, Legal and Philosophical Arguments

Colorado advanced administrative, legal and philosophical arguments which were not considered under the good faith waiver provisions of 42 CFR 431.802(f)(2).

[illegible]

DRAFT

The Honorable William A. O'Neill
State Capitol
Hartford, Connecticut 06115

Dear Governor O'Neill:

On March 10, 1983, Connecticut was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 19, 1983, Connecticut submitted a request for waiver and this letter is to advise you of my final decision to waive 72.30 percent of the disallowance amount. This results in a reduction of the potential disallowance from $313,000 to approximately $86,701.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

[illegible]

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Income Maintenance
Regional Director, HHS, Region I
Regional Administrator, OFA, Region I

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Connecticut

Waiver Evaluation Findings

Connecticut requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Connecticut received a total weighted score of 72.30 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Connecticut received a weighted score of 22.80 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. A Corrective Action Panel met monthly and a work group was created to provide ongoing reinforcement of corrective action goals. The involvement of the Deputy Commissioner in the corrective action process was especially significant. The State maintained the timeliness and quality of quality control reviews and conducted a wage match; however, wage data was not requested for all required individuals. Although staffing shortages affected the corrective action program, top management responded by reassigning social service functions and filling some staff vacancies. The State also implemented the recommendation of the Office of Family Assistance (OFA) Regional Office regarding responsibility for monitoring the correction of individual error cases, and QC responsibilities were appropriately assigned. Finally, there was adequate demonstration that a number of initiatives, not otherwise considered, were undertaken during the period to improve the corrective action process. A major deficiency was noted in the absence of written evidence that the Department of Income Maintenance (DIM) top management informed State or local staff of any specific AFDC error reduction goals. Although DIM submitted agency goal and mission statements, as required, none of the material presented indicated any specific AFDC error reduction goals. In addition, no CAP was submitted for the October 1980 - March 1981 and the April - September 1980 CAP was late. Other deficiencies noted were that responsibilities for writing and submitting the CAPs were not clearly assigned and there was no evidence presented regarding performance standards for managers.

Connecticut received a weighted score of 20 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used, and systems resources were accessible to individuals responsible for corrective action. Systems were evaluated as a potential corrective action tool, and the State was actively pursuing a number of corrective action-related alternatives in the systems area. Finally, systems outputs/results were transmitted and utilized by responsible officials and appropriate training activities were undertaken.

Connecticut received a weighted score of 18.25 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The State analyzed QC findings by error elements, trend, nature/sources of error and geographical location. The State also developed special studies, interim reporting of data, and a narrative explanation of QC data, which included a discussion of agency/client errors, earned income error analysis, and a comparision of district offices, and transmitted it to those responsible for program analysis. The State presented evidence of informal program analysis performed at Corrective Action Panel meetings, the program analysis of agency errors, and the program analysis done by districts.

Although the State submitted completed QC tables, there were delays in submission of both sets of tables. The State also failed to analyze Federal rereview findings and do statistical testing. The lack of an error-prone profile, despite many abortive efforts, was also considered a deficiency in Connecticut because of limited staff resources and rapidly increasing client errors. Finally, there was insufficient program analysis to identify specific causes of major errors, especially client errors which accounted for two-thirds of the payment error rate.

Connecticut received a weighted score of 11.25 (of a possible 25) for its management and execution of the corrective action process. The State provided documentation of pilot projects, local involvement in the corrective action process, and the cost/benefit analyses done for major corrective actions. The agency had an implementation monitoring structure in place, there was an ongoing process to amend or discontinue corrective actions,and the agency did implement a number of corrective actions during the period. Finally, the State established a structure for evaluation and evaluated several management-oriented corrective actions during the period.

A major deficiency was the failure of the State to develop corrective actions to address all the major error elements. Even those corrective actions not included in the CAPs suffered from the same lack of targeting and specificity, and many were simply on-going activities resulting from earlier corrective actions. Client errors were increasing yet the State did not develop corrective actions to address them. No milestones or target dates were evident in the CAP. While some of the corrective actions might not have been divisible into milestones, there is no evidence that the State evaluated each corrective action to determine this. The allocation of staffing and fiscal resources was insufficient with the result that many of the corrective actions for the period were suspended or delayed due to the lack of available resources. In addition, there was no evidence of a process to monitor local implementation of State corrective actions. A significant number of important planned corrective actions were not implemented within the period. Finally, the State did not go beyond the analysis of subsequent error rates when it evaluated major corrective actions.

Attachment

ATTACHMENT

CONNECTICUT
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	76
1. Demonstrated commitment to error reduction program	50	33
(P) - Corrective action goals enunciated in agency policy (e.g., policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g., computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	23
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g., reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	73
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	18
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	25
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	20

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	45
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	5
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	20
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 76 x .30 = 22.80
B 100 x .20 = 20.00
C 73 x .25 = 18.25
D 45 x .25 = 11.25

Score = 72.30

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable Bob Graham
State Capitol
Tallahassee, Florida 32301

Dear Governor Graham:

On March 10, 1983, Florida was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 18, 1983, Florida submitted a request for waiver and this letter is to advise you of my final decision to waive 90.10 percent of the disallowance amount. This results in a reduction of the potential disallowance from $3,467,000 to approximately $343,233.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Secretary, Department of Health and Rehabilitative Services
Regional Director, HHS, Region IV
Regional Administrator, OFA, Region IV

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Florida

Waiver Evaluation Findings

Florida requested a waiver on the basis of a disaster, pursuant to 45 CFR 205.42(g)(2)(i), a sudden and unanticipated workload change, pursuant to 45 CFR 205.42(g)(2)(iii), and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of disasters such as floods, storms, tornadoes, hurricanes, freezing conditions and riots on the AFDC program, the following was concluded. The information provided was insufficient to establish the extent to which each of these circumstances negatively affected the AFDC program and the payment error rate during the review period. The State also did not demonstrate what management's efforts were to respond to the disasters. We, therefore, could not consider these disasters as a basis for granting Florida's waiver request.

With respect to an unanticipated workload change resulting from statewide population growth and an influx of Cuban/Haitian refugees and its impact on the AFDC program, the following was concluded. The State did not sufficiently demonstrate that these circumstances were unanticipated and extraordinary in nature. In addition, Florida failed to provide sufficient information to establish the extent to which these circumstances negatively affected the AFDC program and the payment error rate during the review period. Lastly, no information was provided to demonstrate that appropriate management efforts were taken to respond to the workload increase. We, therefore, could not consider a workload change as a basis for granting Florida's waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Florida received a total weighted score of 90.10 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Florida received a weighted score of 25.50 (of a possible 30) for its efforts in demonstrating commitment by top management to the error reduction program. Florida demonstrated that processes were in place to enunciate corrective action goals and ensure timeliness and quality of State QC reviews. Accountability for decisions in the corrective action process existed at top management levels and responsibilities for the day-to-day operation of the corrective action process were delegated to appropriate levels of management. Florida also initiated the development of an enhanced AFDC QC data processing system, in addition to forming a training unit and aggressively prosecuting public assistance fraud. However, the wage match was conducted semi-annually rather than quarterly, as required, and the CAP for the October 1980 - March 1981 period was submitted 11 months late.

Florida received a weighted score of 19.60 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. The manual/automated systems in place were sufficient to reduce errors and the State monitored these systems to ensure that they continued to address the State's data needs. Florida demonstrated that the outputs of the systems in place were sent to responsible officials and utilized. The State, however, discontinued the use of the Beneficiary and Earnings Data Exchange (BENDEX). The existence of Social Security income errors, although small, justifies the use of BENDEX.

Florida received a weighted score of 23.75 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. Florida submitted the required QC forms in a complete and timely fashion. Florida's description of data included a geographic breakdown of errors to assist district offices in developing county-specific corrective actions. The analysis of program operations was sufficient to determine the causes of errors. Much of the statistical analysis conducted by the State provided decision makers with comprehensive error rate information. However, the State did not conduct error prone profiling and statistical tests which would be expected, given the State's sample size.

Florida received a weighted score of 21.25 (of a possible 25) for its efforts in management and execution of the corrective action process. The corrective actions developed and implemented during FY 1981 appropriately addressed the causes of error. Florida demonstrated that a process was in place to monitor the implementation of corrective actions and the corrective actions identified in the State's FY 1981 CAPs were implemented. Corrective actions were evaluated with respect to their impact on the error rate. However, the costs/benefits and indirect outcomes of the corrective actions were not evaluated. Although the appropriate officials were involved in the process, the State did not establish milestones in its CAPs. Thus, Florida was deficient in the corrective action planning process.

Attachment

ATTACHMENT

FLORIDA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	85
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g., policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer computer time, additional staffing) - Other indicators as presented by the State	50	35
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	30

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	98
1. Use of Data (P) - Use of available source data (e.g., BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	18
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g., staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g., management information systems) - Consideration of alternatives to current system (e.g., assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g., monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g., reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	95
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	30
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	35

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	85
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective-Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	20
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	45
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 85 x .30 = 25.50
B 98 x .20 = 19.60
C 95 x .25 = 23.75
D 85 x .25 = 21.25

Score = 90.10

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable George R. Ariyoshi
State Capitol
Honolulu, Hawaii 96813

Dear Governor Ariyoshi:

On March 10, 1983, Hawaii was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Hawaii failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Hawaii requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA), respectively.

This letter is to advise you of my final decision to waive 73.60 percent of the AFDC disallowance amount. This results in a reduction of the potential disallowance from $1,212,000 to approximately $319,968. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 41.9 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $2,308,567 to approximately $1,341,277. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Social Services and Housing
Regional Director, HHS, Region IX
Regional Administrator, OFA, Region IX
Regional Administrator, HCFA, Region IX

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Hawaii

Waiver Evaluation Findings

Hawaii requested a waiver based on a sudden and unanticipated workload increase, pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of litigation, changes in State statutes and implementation of Federally mandated program changes which you indicated resulted in a sudden and unanticipated workload increase, the following was concluded. Hawaii failed to sufficiently demonstrate the extraordinary nature of the workload increase. The changes in State statutes and implementation of Federally mandated program changes, as well as the workload demands of the State's Administrative Procedures Act, were entirely within the control of the State, and the Omnibus Budget Reconciliation Act (OBRA) did not appear to place extraordinary demands on case processing during FY 1981. Hawaii also failed to adequately demonstrate the extent to which any of these circumstances negatively affected the AFDC program and the payment error rate and failed to document efforts taken to limit their impact. We, therefore, could not consider these circumstances as a basis for granting a waiver.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Hawaii received a total weighted score of 73.60 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Hawaii received a weighted score of 22.50 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The State enunciated corrective action goals through a number of memoranda and through the State and

Branch Corrective Action Panel processes and maintained the quality and timeliness of quality control reviews; wage data was matched as required; and access by State staff responsible for corrective action to top management was illustrated. The State demonstrated commitment by management to strengthen accountability for the corrective action process at the branch and State level and bring the viewpoints of QC management into the corrective action process. Quality control and corrective action responsibilities were adequately delegated/assigned, and initiatives not otherwise credited were undertaken in the systems area and in policy/procedure clarifications to improve the corrective action process. Deficiencies noted included the failure of the State to submit on a timely basis the corrective action plans due in the period and problems with the acquisition of staffing resources. Although the branches appear to have been a strong link in the overall corrective action process, the Public Welfare Administrator did not impose specific corrective actions on the line staff. Also, there was a lack of performance standards for managers, and the State did not demonstrate that sufficient other error reduction initiatives were undertaken.

Hawaii received a weighted score of 18.60 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used. The State's electronic data processing system adequately supported the Public Welfare Division throughout the first Michel period. The State's interest in upgrading its computer capabilities is further evidence to support its commitment of maintaining adequate systems resources. Except for the wage data match, systems output/results were sent to responsible officials and output/results related to corrective action were utilized by responsible staff. The State failed to properly transmit the identified wage match "hits" to workers for investigation of potential current earnings. This was considered a deficiency due to the continued high number of earned income errors. Other deficiencies noted were the absence of a systematic supervisory review system during the period and the untimeliness of the "WIN Crash Review" printouts. Also, no assessment could be made with regard to the adequacy of training in the use of output as no evidence of this nature was provided.

Hawaii received a weighted score of 18.75 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The QC tables due during the first Michel period were submitted complete and timely. The State performed a limited analysis of the QC sample by error elements which was supplemented by the Office of Family Assistance (OFA) Regional Office. Nature/sources of errors and a geographical breakdown of errors were adequately addressed by the two separate organizational units within the Department of Social Services and Housing (DSSH). The State was responsive to the OFA Regional

Office recommendation to consider error prone profiling and transmitted narrative descriptions of QC data to those responsible for program analysis. There were several independent analyses which were responsible for determining cause of QC errors and the branches' active involvement in program analysis was also a factor in the State's overall error reduction efforts. Significant deficiencies included the State's failure to analyze Federal rereview findings, the absence of trend analysis, and the general lack of a careful and in-depth Statewide program analysis necessary to plan effective corrective actions. The State's analysis of the programmatic causes of error was deficient because the error "cause" identified by the Program Development staff did not always identify the program source of the problem (e.g., the absence of a WIN referral form or the absence of a child support assignment form).

Hawaii received a weighted score of 13.75 (of a possible 25) for its management and execution of the corrective action process. The State's attempts to strengthen the process during the last quarter of the period and the branches' efforts to address error specific problems were demonstrated, particularly in the areas of earned income and school attendance. The State did include target dates and progress reports for implementing corrective actions. The branches were active in establishing start and completion dates, monthly progress reports and projected impact/results as evidenced in their respective corrective action plans. Pilot projects and the involvement of local agency staff in the planning process were significant factors in the State's overall execution of the corrective action process. The State was able to monitor statewide corrective actions assigned to various Central Office components. Also, individual branches implemented actions to reduce errors, e.g., utilization of certain caseload specialists and Quality Maintenance Workers. An ongoing process for amending or discontinuing corrective actions, as necessary, existed and the State informally evaluated most corrective actions by utilizing Quality Maintenance Worker findings, supervisors' reports, as well as subsequent QC findings. The corrective action plans submitted by the branches also provided the opportunity to describe the "impact" of implemented corrective actions or evaluation of costs/benefits.

Deficiencies noted include the State's failure to develop corrective actions for all significant error elements. The August 1981 corrective action plan did not incorporate the QC findings for the six month review period which ended March 1981. Most of the corrective actions described were limited in their application to either pilot projects or actions taken by selective local offices. A review of the corrective actions in progress during the period revealed many to be management procedures rather than corrective actions. The absence of milestones and goals for most corrective actions, made it difficult to determine the achievement or effectiveness of those actions. Although the State assigned responsibilities to various staff members for planning and implementing corrective actions, a large number of actions were either delayed or abandoned due to inadequate resources to achieve potential corrective actions. There was routinely a lack of cost/benefit assessment during the planning process, except for the major proposal to implement a monthly reporting/retrospective budgeting system. Certain proposed actions which appeared to have potential for reducing errors were delayed or not implemented (e.g., assigning more complex cases to senior workers; standardizing supervisory case reviews). Also, the State Corrective Action Panel did not receive adequate information regarding the progress of county-specific corrective actions and formal evaluation was limited only to selected corrective actions.

Attachment

HAWAII
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	75
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	40
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	20

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	15

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	93
1. Use of Data	20	20
(P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate		
- Other indicators presented by the State		
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis	45	43
(P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions		
- Systems in place evaluated as potential corrective action tool (e.g. management information systems)		
- Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement)		
- Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)		
3. System Utilization	35	30
(P) - Systems output/results sent to responsible officials (e.g. reports, tapes)		
- Output results related to corrective action utilized by responsible staff		
- Training in use of output provided to users		
Other indicators presented by the State		

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	75
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	20
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	25

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	55
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	5
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	25
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	10

(P) Primary

Weighting

Factor A subscore 75 x .30 = 22.50
B 93 x .20 = 18.60
C 75 x .25 = 18.75
D 55 x .25 = 13.75

Score = 73.60

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v))

STATE: HAWAII

WAIVER EVALUATION FINDINGS

Corrective Action Plan (CAP) (42 CFR 431.802(f)(2)(v))

A. Demonstrated Commitment by Top Management

9 points (weighted by .20) = score of 1.80

Documentation provided to allow partial credit for the following:

- Timely submittal of CAPs for two review periods, and
- efforts to rewrite the State Medicaid Eligibility Manual.

Insufficient documentation provided to allow credit for the following:

- Enunciation of corrective action (CA) goals in agency policy,
- efforts by top management to assure timeliness quality and independence of State QC reviews,
- delegation of quality control (QC) and CA responsibilities to appropriate management components, and
- regular CA meetings at top management and staff levels.

B. Sufficiency and Quality of Systems Designed to Reduce Errors

11 points (weighted by .15) = score of 1.65

Documentation provided to allow partial credit for the following:

- Use of Beneficiary Data Exchange and Supplemental Data Exchange.

Insufficient documentation provided to allow credit for the following:

- Assurance that systems resources were accessible to individuals responsible for CA,
- evaluation of current or alternative systems for CA purposes, and
- assurance that systems outputs were sent to and used by trained responsible staff.

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

27 points (weighted by .15) = score of 4.05

Documentation provided to allow partial credit for the following:

- Submittal of QC data,
- analysis of State QC sample by error element nature and source, and
- minimal analysis of program operations.

Insufficient documentation exists to allow credit for the following:

- Analysis of Federal re-review findings,
- transmittal of narrative explanation of QC data analysis to those responsible for program analysis, and
- regular CA meetings.

D. Management and Execution of CA Process

5 points (weighted by .50) = score of 2.50

Documentation provided to allow partial credit for the following:

- Minimal development of CAs.

Insufficient documentation exists to allow credit for the following:

- CA planning,
- CA implementation, and
- CA evaluation.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 10.00 ADJUSTED SCORE: 41.90

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable John V. Evans
State Capitol
Boise, Idaho 83720

Dear Governor Evans:

On March 10, 1983, Idaho was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Idaho failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Idaho requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA) respectively.

This letter is to advise you of my final decision to waive 84 percent of the AFDC disallowance amount. This results in a reduction of the potential disallowance from $691,000 to approximately $110,560. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 67.5 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $233,527 to approximately $75,896. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Health and Welfare
Regional Director, HHS, Region X
Regional Administrator, OFA, Region X
Regional Administrator, HCFA, Region X

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Idaho

Waiver Evaluation Findings

Idaho requested a waiver based on a sudden and unanticipated workload increase, pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of Food Stamp changes, AFDC caseload growth and court orders which you indicated resulted in a sudden and unanticipated workload increase, the following was concluded. Idaho failed to demonstrate the extraordinary nature of the workload increase. The State failed to demonstrate the specific impact of any of the circumstances on the program and the payment error rate and failed to adequately describe the efforts undertaken by management to respond to the circumstances and limit their impact. We, therefore, could not consider these circumstances as a basis for granting a waiver.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Idaho received a total weighted score of 84.00 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Idaho received a weighted score of 24 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. On the basis that the State has a small, central organization where most communication is of an informal nature, the State was found to have sufficiently enunciated goals. Idaho performed wage matching during the period and the quality and timeliness of quality control reviews were sufficient except for dropped cases. Additional resources were acquired, corrective action plans were timely, and the State documented additional error-reduction activities, not otherwise credited.

Deficiencies were noted with a high number of dropped cases and staffing problems both at the supervisory and reviewer levels in the State QC unit. Also, even when taking into account the size of the agency and its informal nature, less than adequate management accountability for the corrective action process was demonstrated below the Deputy Director. Although the creation of a Regional Program Manager for Financial and Medical Assistance was a positive step toward increased accountability and specialization, the responsibility of this position with regard to corrective action was not defined. Several management deficiencies in the corrective action process were noted including the lack of a corrective action coordinator and the lack of direct top management involvement in the corrective action process, which limited management control and direction. Lastly, no performance indicators were evident at either the State or local level.

Idaho received a weighted score of 20 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used. Given the State's small caseload, limited resources and small staff, Idaho demonstrated the sufficiency and quality of manual/automated systems to reduce errors and adequately and appropriately utilized its system resources.

Idaho received a weighted score of 21.25 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The State submitted the required QC tables on a timely basis and its analysis of QC findings was statistical analysis but this is somewhat expected due to limited staff and small sample size. A narrative explanation of QC data analysis was provided to the corrective action committee and included in each corrective action plan. Program analysis of specific error causes, such as shelter and enumeration, was conducted although a deficiency was noted in the lack of an ongoing or regular process for program analysis, especially involving local staff. Idaho did not incorporate Federal rereview findings into corrective action planning and did not do trend analysis. Trend analysis would appear to be useful to a small sample State enabling it to detect "real" error trends from sampling variations.

Idaho received a weighted score of 18.75 (of a possible 25) for its management and execution of the corrective action process. Corrective actions were identified for the most significant errors, and the majority of the planned corrective actions for any one QC period were usually completed by the time the next corrective action plan was due. The State did appear able to amend or discontinue planned corrective action, although there was no process to accomplish this on an ongoing basis. Allocation of resources for corrective action planning and local agency involvement were also evident. Although the State provided cost benefit analyses for some major planned corrective actions, it did not regularly perform these analyses for all appropriate activities, as recommended by the Regional Office. The lack of milestones/target dates was considered a major deficiency, and there was no evidence of an ongoing, regularly-established implementation monitoring process. In addition, in several specific instances, implementation was inappropriately delayed in relation to the major error the corrective action was designed to reduce. Finally, the State did not include an assessment of actual costs and benefits or related indirect outcomes in the evaluation of corrective actions although it did conduct a general evaluation of corrective actions based on error reduction.

Attachment

IDAHO
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	80
1. Demonstrated commitment to error reduction program	50	45
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	15
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	85
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	30
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	25

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	75
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	20
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	35
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 80 x .30 = 24.00
B 100 x .20 = 20.00
C 85 x .25 = 21.25
D 75 x .25 = 18.75

Score = 84.00

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v))

STATE: IDAHO

WAIVER EVALUATION FINDINGS

I. Corrective Action Plan (CAP) (42 CFR 431.802(f)(2)(v))

A. Demonstrated Commitment by Top Management

30 points (weighted by .20) = score of 6.00

Documentation provided to allow full credit for the following:

- Hiring of additional staff,
- training of new staff, and
- agency reorganization giving higher regional priority for Medicaid.

Documentation provided to allow partial credit for the following:

- Enhancement of the quality of QC reviews by regular meetings,
- regular CA meetings at top management level, and
- access by staff responsible for corrective action (CA) to top management through regular meetings.

Insufficient documentation provided to allow credit for the following:

- Enunciation of CA goals in agency policy,
- efforts by top management to assure timeliness and independence of QC reviews,
- establishment of performance standards for management and staff reflective of their accountability for error reduction,
- development of systems geared to error reduction,
- timely submittal of any CAP during the Michel period, and
- assignment of QC and CA activities to the appropriate level of management.

B. Sufficiency and Quality of Systems Designed to Reduce Errors

51 points (weighted by .15) = score of 7.65

Documentation provided to allow full credit for the following:

- systems output sent to responsible officials

Documentation provided to allow partial credit for the following:

- Accessibility of systems resources to individuals responsible for CAs,
- use of CA outputs by responsible officials, and
- use of Beneficiary Data Exchange, Supplemental Data Exchange and wage match.

Insufficient documentation provided to allow credit for the following:

- Evaluation of in-place systems as CA tool,
- consideration of alternative systems, and
- provision of training in use of systems.

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

33 points (weighted by .15) = score of 4.95

Documentation provided to allow full credit for the following:

- Special studies and interim reports, and
- regular meetings of CA committee.

Documentation provided to allow partial credit for the following:

- Adherence to QC data submission requirements.

Insufficient documentation provided to allow credit for the following:

- Timely analysis of QC sample by error element,
- analysis of Federal re-review findings,
- transmission of narrative explanation of QC data analysis to those responsible for program analysis, and
- analysis of program operations to determine cause of QC errors.

D. Management and Execution of CA process

34 points (weighted by .50) = score of 17.00

Documentation provided to allow full credit for the following:

- Pilot projects,
- revision of CAs as necessary.

Documentation provided to allow partial credit for the following:

- Development of CAs for all significant error elements, and
- implementation of majority of planned CAs.

Insufficient documentation exists to allow credit for the following:

- Establishment of CA milestones,
- discussion of allocation of resources for CA planning,
- establishment of a system for implementation monitoring, and
- evaluation of majority of implemented CAs.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 35.60 ADJUSTED SCORE: 67.50

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

II. Sudden and Unanticipated Workload (42 CFR 431.802(f)(2)(iii))

The State reported its failure to achieve MQC target was due to sudden and unanticipated workload caused by the following:

- Increase in Food Stamp program,
- decline in the State's economy, and
- significant increase in AFDC program in 1978 and 1979.

Request denied as State failed to meet the following criteria outlined in our letter of July 22, 1983:

- State failed to establish that the increased workload could not have been anticipated, and
- State failed to identify the percentage of caseload affected or the cases impacted.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable Robert D. Orr
State Capitol
Indianapolis, Indiana 46204

Dear Governor Orr:

On March 10, 1983, Indiana was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 13, 1983, Indiana submitted a request for waiver and this letter is to advise you of my final decision to waive 63.05 percent of the disallowance amount. This results in a reduction of the potential disallowance from $113,000 to approximately $41,754.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Public Welfare
Regional Director, HHS, Region V
Regional Administrator, OFA, Region V

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Indiana

Waiver Evaluation Findings

Indiana requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Indiana received a total weighted score of 63.05 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Indiana received a weighted score of 21.90 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The State clearly enunciated, through written policy material to the counties and through the incentive/disincentive financial system, that its goal was to keep error rates low. The State demonstrated its efforts through the following: county meetings were held which allowed the county managers an opportunity to discuss corrective action strategies with State and other county staff; quality control reviews were completed and were timely and of high quality; and county CAPs for high-error counties were required by the State. The State also documented that some measures were undertaken to ensure accountability at the county level. The State obtained legislation holding counties fiscally responsible for any disallowances of Federal funds due to high error rates and conducted administrative reviews in high error counties. Indiana was also credited with numerous initiatives, not otherwise addressed, to improve corrective action, such as strong training activities and progress in developing a Statewide data processing system.

A major deficiency was noted in the lack of top management involvement and control over the Statewide corrective action process. Despite a significant increase in the error rate for the October 1980 - March 1981 period, there was no sense of urgency with respect to corrective action by top management. The State reduced the frequency of Corrective Action Committee meetings from monthly to twice a year. There was no evidence of a State process to approve or accept county CAPs; it was not until late in the period that it was noted that counties needed to resume corrective action meetings. Staff cutbacks contributed to increasing caseloads and an inability to maintain the error rate below target. In addition, the transmittal to the counties of official AFDC-QC data was four to five months late, thereby delaying further the effects of any corrective actions based upon this data. The mandated wage match was not operational for the full period, and one CAP was more than one month late. The State appeared to have only a limited "supervisory" role over the county departments in the corrective action process. Counties were developing and implementing their own CAPs, with no apparent requirements for monitoring from the State. The Director of the Public Assistance Division appeared to be responsible for the major corrective action decisions, yet there was no evidence of her accountability to superiors. Lastly, there was no evidence that performance standards were established.

Indiana received a weighted score of 15.40 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used, and the limited State system resources available were accessible to individuals responsible for corrective action and were supplemented by specific county systems activities. Finally, system output/results were transmitted to responsible officials.

Although WIN errors were a continuing problem, the State did not provide "alert" printouts for cases with children ages 6, 16, and 18. In addition, there was no evidence that the State's client reporting system was evaluated during the period despite rising "client-failure to report" errors. An Office of Family Assistance (OFA) Regional Office review also noted that counties were not effectively and regularly using wage and Beneficiary and Earnings Data Exchange (BENDEX) information.

Indiana received a weighted score of 17 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The State analyzed the sample by error element, geography and trends and developed an error prone profile. Narrative descriptions of QC data were transmitted to those responsible for program analysis. Four of the five county CAPs provided indicated some program analysis.

However, the State failed to incorporate Federal rereview findings into its error analyses, despite the significant number of differences from the original State findings, and the State's causal analysis, was restricted to an agency/client breakout. No additional statistical breakout of client error was done. Other deficiencies include the absence of Statewide program analysis of QC data necessary for developing specific, effective corrective actions, and the late submission of QC tables for the April-September 1980 period.

Indiana received a weighted score of 8.75 (of a possible 25) for its management and execution of the corrective action process. Few specific State corrective actions were developed and corrective actions were indicated in three of the five county CAPs provided. The State also allocated limited resources necessary for Statewide and county corrective action and county meetings were conducted by the State agency. County CAPs contained implementation status reports and some Statewide corrective actions were implemented. Finally, the State did evaluate the effectiveness of corrective actions by error reduction reported in subsequent periods.

A major deficiency was that the majority of corrective actions developed were too general and could not be expected to significantly affect specific error elements. Other deficiencies noted were that CAPs considered for the period contained neither milestones or target dates, nor any assessment of costs and benefits. There was no evidence of coordination between State and county CAPs or a monitoring system for county and State CAPs. Few corrective actions were implemented although most were short term and should have been implemented during the period. There was no evidence of a process for amending or discontinuing corrective actions. Because no time frames were established for State or county corrective actions, it was not possible to determine whether they were met. Finally, there was no evidence that the State or counties performed a substantive evaluation of any corrective action.

Attachment

INDIANA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	73
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	35
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	18

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	77
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	37
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	20

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	68
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	18
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	30
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	10

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	35
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	5
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	10
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 73 x .30 = 21.90
B 77 x .20 = 15.40
C 68 x .25 = 17.00
D 35 x .25 = 8.75

Score = 63.05

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable John Carlin
State Capitol
Topeka, Kansas 66612

Dear Governor Carlin:

On March 10, 1983, Kansas was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 16, 1983, Kansas submitted a request for waiver and this letter is to advise you of my final decision to waive 77.70 percent of the disallowance amount. This results in a reduction of the potential disallowance from $1,903,000 to approximately $424,369.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Social
and Rehabilitation Services
Regional Director, HHS, Region VII
Regional Administrator, OFA, Region VII

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Kansas

Waiver Evaluation Findings

Kansas requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting such a waiver were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Kansas received a total weighted score of 77.70 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Kansas received a weighted score of 23.10 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The involvement of top management and the clear access to top management of those responsible for implementing corrective action were clearly demonstrated. Kansas performed wage matching during the period and authorized new worker positions. Accountability and responsibility both for QC and corrective action were appropriate insofar as organizational relationships and individual performance standards were concerned, and full credit was given for numerous state training initiatives, manual revision and form redesign, and systems development. However, the management process for corrective action and QC showed some weaknesses. There was no full time corrective action coordinator nor was there a corrective action committee. Moreover, while it is not inappropriate for the Public Assistance Administrator to be responsible for corrective action, his effective performance in the role was limited by his many other duties. There was no evidence that top management was regularly held accountable for corrective action decisions and corrective action planning and monitoring were not appropriately delegated. The CAP for October 1980 - March 1981 was not submitted timely and there was a dramatic increase in dropped cases in the April - September 1981 period.

Kansas received a weighted score of 18.60 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used, and systems resources were accessible to individuals responsible for corrective action. The State implemented monthly reporting and retrospective budgeting before these were Federal requirements. Systems outputs were provided timely to local offices. However, a 1981 management review by the Regional Office of Family Assistance (OFA) indicated that "increased computer support could enable staff to do more." The SRS 115 manual system was applied inaccurately and inconsistently at the supervisory level, making its findings "of little use and value" according to the State's own analysis. The OFA Regional Office recommendation, if followed, might have freed local staff and resulted in improved utilization of the SRS 115. An OFA Regional Office review of October 1980 - March 1981 data found a "breakdown" in local staff utilization of BENDEX and other wage data. The information on which the OFA Regional Office based its recommendations was available to the State early enough for the State to have acted more timely to correct this problem at the local level.

Kansas received a weighted score of 18.50 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The State analyzed the QC sample by error elements and trends and transmitted narrative descriptions of QC data to those responsible for program analysis. While the Public Assistance Administrator developed a written program analysis prior to the period as part of the corrective action plan preparation, full score was not given because the limited data available from State QC and the lack of analytical staff assistance adversely affected the depth and usefulness of the analysis. Morever, the State did not analyze Federal rereview findings which had a significant impact on the error rate, nor did it analyze data by geographical area, although errors appeared to be concentrated geographically. The SRS 115 case reviews provided some geographical data, but it was of questionable statistical validity. Tables for the October 1980 - March 1981 QC period were not submitted timely.

Kansas received a weighted score of 17.50 (of a possible 25) for its management and execution of the corrective action process. Corrective actions were identified for the most significant errors with the exception of certain unearned income errors. Financial impact statements were provided only when policy-related, neglecting the costs/benefits of all other corrective actions. however, final completion dates were set in the CAPs and there was some local office involvement in planning. Monitoring was informal, and most of the corrective actions listed in previous CAPs were eventually implemented, though not always timely. Evaluation was also carried out informally. The State's documentation reflected an inadequacy of planning staff resources, the absence of written milestones, and inadequate resource allocation for individual corrective actions as detailed in CAPs. Area participation lacked continuity and received inadequate attention from the State level with respect to local corrective actions, even in the three areas with 60% of the caseload. Kansas failed to timely implement five corrective actions contained in the April - September 1980 CAP. There was no information presented on achievement of milestones for corrective actions planned for FY 1981 to address errors from the October 1980 -

March 1981 period. Ongoing State and area corrective actions were insufficiently monitored as evidenced by the fact that "feedback" from Income Maintenance Chiefs' meetings was cited, but there is no evidence of formal, written monitoring reports. There was no process for amending corrective actions and no written, formal evaluations of corrective actions based on actual costs and benefits or indirect outcomes. These deficiencies reflect the lack of manpower assigned to assist the Public Assistance Administrator in these areas.

Attachment

KANSAS
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	77
1. Demonstrated commitment to error reduction program	50	37
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	20
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	93
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	43
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	30

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	74
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	19
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	25
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	20

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	70
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	12
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	38
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 77 x .30 = 23.10
B 93 x .20 = 18.60
C 74 x .25 = 18.50
D 70 x .25 = 17.50

Score = 77.70

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable Joseph E. Brennan
State House
Augusta, Maine 04330

Dear Governor Brennan:

On March 10, 1983, Maine was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 12, 1983, Maine submitted a request for a waiver and this letter is to advise you of my final decision to waive 57.40 percent of the disallowance amount. This results in a reduction of the potential disallowance from $168,000 to approximately $71,568.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Human Services
Regional Director, HHS, Region I
Regional Administrator, OFA, Region I

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Maine

Waiver Evaluation Findings

Maine requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting such a waiver were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10 1983. Maine received a total weighted score of 57.40 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Maine received a weighted score of 15.90 (out of 30) for its efforts in demonstrating the commitment of top management to the error reduction program. The State enunciated the importance of implementing the negotiated CAP, those responsible for corrective action had access to top management and additional staff were acquired. Maine also received credit for its efforts in developing an integrated AFDC and Food Stamp data base, preparing a comprehensive training plan, and establishing a special work committee to examine error-related policies and procedures.

Although QC and corrective action responsibilities were appropriately delegated, accountability for the corrective action process existed only at the State level. The State regional offices were not held accountable for the corrective action process until April 1982, after the first Michel period had ended. Also, there were no performance standards in place during the first Michel period. Maine did not demonstrate that the wage match was conducted on the required quarterly basis, efforts were not made to assure the timeliness and quality of QC reviews and corrective action goals were not re-examined based on data for the first Michel period. Finally, more error reduction initiatives could have been developed during the first Michel period.

Maine received a weighted score of 14 (of a possible 20) for the sufficiency and quality of systems designed to reduce errors. Available source data and the output resulting from systems in place were utilized by those responsible for implementing corrective actions. However, the systems in place fully addressed only one of the top five error elements (i.e., Social Security Number). Efforts were made to address earned income errors through case reviews and wage matching, but these activities were not sufficient. There were no systems in place to address the other top four error elements. The State did not demonstrate that these systems were evaluated as potential corrective actions or that alternatives to the current systems were considered. There was also no evidence that training took place in the use of systems outputs.

Maine received a weighted score of 8.75 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The required QC forms were submitted in a complete fashion but not timely (three and six months late). Maine analyzed the State QC sample by error element, nature and source of errors, and by trends. However, Federal differences were not reviewed and these varied greatly from State findings. The State did not demonstrate that error prone profiles or any of the other statistical analysis activities (e.g., geographical analysis and target studies) were conducted. The only narrative explanation of QC data analysis was of individual error cases, with no description of the operating procedures which may have caused specific kinds of errors. Finally, Maine did not demonstrate that any program analysis was conducted for the sample periods between October 1980 and September 1981.

Maine received a weighted score of 18.75 (of a possible 25) for its management and execution of the corrective action process. Corrective actions to address error elements existing in the April - September 1979 QC sample were developed. Resources were allocated to planning and implementing the negotiated CAP and Maine monitored the implementation of this CAP. However, there was no evidence that Maine established milestones, assessed costs/benefits or involved local offices in the planning process. There was no evidence that an ongoing process existed for amending or discontinuing corrective actions as necessary. Some gross evaluation of corrective actions was conducted, but effects of specific actions on the error rate were not evaluated. A cost/benefit analysis was not conducted and related indirect outcomes were not considered.

Attachment

MAINE
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	53
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	25
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	18

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	10

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	70
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	20
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	30

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	35
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	10
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	20
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	5
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	0

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	75
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	40
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 53 x .30 = 15.90
B 70 x .20 = 14.00
C 35 x .25 = 8.75
D 75 x .25 = 18.75

Score = 57.40

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON D.C. 20201

DRAFT

The Honorable Harry Hughes
State House
Annapolis, Maryland 21404

Dear Governor Hughes:

On March 10, 1983, Maryland was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel Amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 13, 1983, Maryland submitted a request for waiver and this letter is to advise you of my final decision to waive 81.50 percent of the disallowance amount. This results in a reduction of the potential disallowance from $1,325,000 to approximately $245,125.

The Federal regulation implementing the Michel Amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Secretary, Department of Human Resources
Regional Director, HHS, Region III
Regional Administrator, OFA, Region III

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Maryland

Waiver Evaluation Findings

Maryland requested a waiver based on a sudden and unanticipated workload increase, pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of caseload growth and implementation of Federally-mandated program changes which you indicated resulted in a sudden and unanticipated workload increase, the following was concluded. Maryland failed to demonstrate extraordinary caseload growth, except in one metropolitan county, or extraordinary demands on case processing during FY 1981 as a result of the implementation of Federally-mandated program changes. The State failed to adequately demonstrate the extent to which these circumstances negatively affected the AFDC program and provided no information regarding their effect on the payment error rate. Finally, the State's request provided insufficient documentation of management efforts to limit the impact of caseload growth and provided no information regarding efforts to limit the impact of the Omnibus Budget Reconciliation Act (OBRA). We, therefore, could not consider these circumstances as a basis for granting a waiver.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Maryland received a total weighted score of 81.50 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Maryland received a weighted score of 24 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The various management information plans, special analyses by internal and external sources and the acquisition of additional staffing indicate top management was committed to error reduction. The State quality control reviews were complete and timely as was the submission of the October 1980 negotiated corrective action plan. The State also provided for appropriate assignment of QC responsibilities and the establishment of the Income Maintenance Administration to improve local accountability to the State office. The State also undertook several error reduction initiatives including implementing automation, establishing comprehensive training activities, and revising problem policy and procedural areas. Major deficiencies noted included the State's noncompliance with 45 CFR 205.56 which requires quarterly wage matching. A potentially effective organization was put in place to elicit greater management accountability; however, documentation indicates this was not carried through at the local level. Although the State agency required from the Field Operations staff monthly monitoring visits of local departments and status reports on the offices' implementation of corrective actions, local managers were not made accountable for corrective action implementation. Thus, a majority of the monthly status reports to the negotiated corrective action plan were untimely. There was no indication that specific managers or management components were charged with responsibility for ongoing corrective action planning. Finally, there is no documentation indicating performance standards existed in the State.

Maryland received a weighted score of 15 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used. The State completed an evaluation of a quarterly wage match, automation of OBRA provisions, and the Age Alert System. The State was receptive to Office of Family Assistance (OFA) Regional Office recommendations regarding problems with the Eligibility Edit and Supervisory Review systems. Output was sent to responsible officials and utilized for corrective action, and the State adequately provided for sufficient user training. A major deficiency was noted in the serious problems related to implementation and resources which were experienced in the Automated Income Maintenance System (AIMS) and Error Prone Profile projects. There was also a serious deficiency in the routine availability of qualitative and quantitative management information. Although a recommendation was made to consider an assignment of support law, there was no evidence presented to suggest that the State considered the alternative.

Maryland received a weighted score of 23.75 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. Maryland submitted its required QC forms in a complete and timely fashion during the FY 1981 period and the Division of Quality Control provided a detailed. narrative analysis of findings, which was transmitted to State administration. The State also conducted adequate analysis of program operations to determine causes of QC errors. Statistical analysis was found to be sufficient with the exception of error prone profiling and statistical testing. Although a form of manual error prone profile was utilized in the Baltimore area for targeting special reviews, the automated Statewide project experienced significant delays. Also, statistical testing which had been recommended by the OFA Regional Office was not pursued.

Maryland received a weighted score of 18.75 (of a possible 25) for its management and execution of the corrective action process. The negotiated corrective action plan addressed all significant error elements identified immediately prior to and during the first Michel period. Corrective action planning included identified milestones, tasks, resources, assessment of costs and benefits, and pilot projects. The State's initiative to create an Income Maintenance Administration resulted in more monitoring activities of program functions. Although certain systems projects (i.e., AIMS and error prone profiling) were not implemented on target, the majority of other corrective actions did become operational in accordance with the State's milestones. The State did have in place a process for altering corrective actions and utilized that process in its implementation of certain actions. The State evaluated its major corrective actions on the basis of subsequent error rates. The State failed to assess actual costs/benefits or related indirect outcomes for all corrective actions. There was a diversion of staff from certain corrective action projects and a lack of meaningful local office involvement in planning corrective actions. Counties did not consistently implement Eligibility Edit and Supervisory Review systems procedures as designed, although the State Office was receptive to OFA Regional Office recommendations for improving the two processes. Finally, as noted above, the implementation of specific systems corrective action projects was not on target.

Attachment

MARYLAND
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	80
1. Demonstrated commitment to error reduction program	50	45
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	15
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	75
1. Use of Data (P) - Use of available source data (e.g. BENDEX,IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufriciency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	20
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	95
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	30
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	35

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	75
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	20
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	30
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	10

(P) Primary

Weighting

Factor A subscore 80 x .30 = 24.00
B 75 x .20 = 15.00
C 95 x .25 = 23.75
D 75 x .25 = 18.75

Score = 81.50

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Rudy Perpich
State Capitol
St. Paul, Minnesota 55155

Dear Governor Perpich:

On March 10, 1983, Minnesota was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 19, 1983, Minnesota submitted a request for waiver and this letter is to advise you of my final decision to waive 68.65 percent of the disallowance amount. This results in a reduction of the potential disallowance from $571,000 to approximately $179,009.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Human Services
Regional Director, HHS, Region V
Regional Administrator, OFA, Region V

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Minnesota

Waiver Evaluation Findings

Minnesota requested a waiver on the basis of a sudden and unanticipated workload change, pursuant to 45 CFR 205.42(g)(2)(iii), State actions resulting from an incorrect Federal policy interpretation, pursuant to 45 CFR 205.42(g)(2)(iv), and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 204.42(g)(2)(i), (ii), (iii), or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

Minnesota indicated that a sudden and unanticipated workload change resulted from State legislative changes and unemployed parent caseload growth. In evaluating the impact of State legislative changes, which you indicated resulted in an overwhelming increase in intake and redeterminations for the AFDC program, the following was concluded. Legislative changes are within the control of the State and thus not extraordinary. In addition, Minnesota failed to provide sufficient information to establish the extent to which the circumstance negatively affected the AFDC program and the payment error rate during the review period.

With respect to the unemployed parent caseload growth resulting in a sudden and unanticipated workload, the following was concluded. While there was growth in the AFDC-Unemployed Parent (UP) recipient population during FY 1981, this growth was incremental and not totally unanticipated or extraordinary. In addition, Minnesota failed to demonstrate what efforts were made by top management to meet its target error rate in spite of the unemployed parent caseload growth. The information provided was insufficient to establish the extent to which the circumstance negatively affected the AFDC program and the payment error rate during the review period. We, therefore, could not consider a sudden and unanticipated workload change resulting from State legislative changes and AFDC-UP caseload growth as a basis for granting a waiver.

After evaluating Minnesota's request for a waiver on the basis of an incorrect policy interpretation from a Federal official, the following was concluded. Minnesota's practice of issuing assistance before a mandatory registrant was registered for WIN was inconsistent with the State Plan provisions and manual provisions. Since QC reviews the States' practices against its manual provisions (or against plan provisions if there is a discrepancy between the two) the Federal QC reviewers appropriately identified WIN errors in Minnesota. We, therefore, could not consider an incorrect policy interpretation as a basis for granting Minnesota's waiver request.

States requesting waivers on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate, were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Minnesota received a total weighted score of 68.65 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Minnesota received a weighted score of 24.90 (of a possible 30) for its efforts in demonstrating commitment by top management to the error reduction program. The State sufficiently demonstrated that corrective action goals were enunciated by requiring the local offices to recover the State and Federal share of any error or suffer a reduction in reimbursement due to the local agency. Efforts were made to assure quality and timeliness in QC reviews, and the State attempted to implement a wage match. Accountability for the corrective action process was placed at high levels in the Department and corrective action responsibilities were delegated to the appropriate State officials. Several policy and procedural initiatives aimed at improving the corrective action process were also started during FY 1981. Minnesota, however, submitted its April - September 1980 CAP two months late. There was no documentation to indicate that performance standards existed reflecting managers' accountability for error reduction. In addition, only a limited number of initiatives, not addressed in other sections of the Minnesota request, were started during FY 1981.

Minnesota received a weighted score of 13 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. The State demonstrated that appropriate source data was being utilized to address the State's needs. Systems resources were available to State individuals responsible for corrective actions and there was a system in place to alert workers to information requiring action. Minnesota did not demonstrate that systems outputs/results were utilized once the workers received them.

There is also no evidence that training was provided on how to use systems output. Training activity of this kind would be expected from a State which appeared to have difficulty with systems' outputs being utilized by the workers.

Minnesota received a weighted score of 17.50 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. Minnesota submitted its required QC forms in a complete and timely fashion. Some statistical analysis was conducted and the results sent to those responsible for program analysis. However, a geographic breakdown of the errors was not provided, the nature/cause of errors was not sufficiently described and statistical tests or special tests of significance were not conducted. Also, the program analysis conducted was not sufficient to determine the cause of errors in all cases.

Minnesota received a weighted score of 13.25 (of a possible 25) for its efforts in management and execution of the corrective action process. The State did make an effort to involve the counties in corrective action planning and the resources necessary to implement its CAPs were provided. Minnesota also implemented the corrective actions indicated in its CAPs and implementaton monitoring was conducted on the State level.

The State did not, however, develop corrective actions appropriate to address a significant percentage of its error rate. For example, the major cause of the State's highest error element, earned income, was the agency's failure to act on information provided. No corrective actions were developed during FY 1981 to address this cause. In addition, milestones were not established in the State's corrective action planning process. Lastly, Minnesota did not have a formal process in place for amending or discontinuing corrective actions; the counties' implementation of the CAPs was not monitored, although monitoring county implementation would seem to be critical in a State-supervised/county-administered system; and the State did not demonstrate that corrective actions were evaluated.

Attachment

MINNESOTA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	83
1. Demonstrated commitment to error reduction program	50	48
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	25
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	10

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	70
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	25
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	15

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	53
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	3
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	20
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	30
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	0

(P) Primary

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	65
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	35
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	10

(P) Primary

Weighting

Factor A subscore 83 x .30 = 24.90
B 65 x .20 = 13.00
C 70 x .25 = 17.50
D 53 x .25 = 13.25

Score = 68.65

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DRAFT

The Honorable Robert Kerrey
State Capitol
Lincoln, Nebraska 68509

Dear Governor Kerrey:

On March 10, 1983, Nebraska was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Nebraska failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Nebraska requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA), respectively.

This letter is to advise you of my final decision to waive 57.85 percent of the AFDC disallowance amount. This results in a reduction of the potential disallowance from $280,000 to approximately $118,020. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 83.55 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $1,566,831 to approximately $257,744. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Social Services
Regional Director, Region VII
Regional Administrator, OFA, Region VII
Regional Administrator, HCFA, Region VII

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Nebraska

Waiver Evaluation Findings

Nebraska requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting such a waiver were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Nebraska received a total weighted score of 57.85 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Nebraska received a weighted score of 17.10 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The State initiated planning activity related to the County Information Support System (CISS), installed policy lines, assigned additional staff to AFDC and revised the State Public Welfare Manual. However, the documentation delineated responsibility and accountability for corrective action only to the Deputy Director level. Although there was a management committee which had a number of responsibilities and which recognized an increase in error rates, committee meeting notes did not refer to any corrective actions either planned or implemented. Some efforts were made to ensure consistency in the QC process, but they failed to address most problems with the quality of QC reviews, although these were highlighted as problematic in management committee meeting notes. There was limited documentation of the State's commitment to maintaining low error rates. The required wage match was not implemented during the period, and the October 1980 - March 1981 CAP was two months late. There were no performance standards for managers, and the State undertook only a limited number of initiatives not specifically addressed in other elements.

Nebraska received a weighted score of 15 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. Some Beneficiary and Earnings Data Exchange (BENDEX) and Systems Data Exchange (SDX) data were used to update files and systems resources were accessible to individuals responsible for corrective action. Computer activities were centralized and the State conducted planning on enumeration of newborns. Research and Statistics staff were utilized in data analysis and their compilations were sent to QC and program staff. However, management reviews indicated a lack of utilization of these materials. Although BENDEX, SDX and other source data were not fully utilized, the State did not indicate any other activities. Moreover, there was no documentation to support the State's assertion that the monthly printouts of six year olds and the redetermination listings were sent to local offices.

Nebraska received a weighted score of 19.50 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. The State submitted complete and timely QC tables. Its statistical analysis was reasonable, given the small sample size, limited number of error cases, and historically low error rates. The State provided a narrative explanation of QC data analysis to those responsible for program analyses in both the CAP and the QC reports. On the other hand, program analysis was limited and a management review indicated a lack of top management participation in program analysis and of formal meetings. Program analysis was not documented. Moreover, the management review conducted by the Office of Family Assistance (OFA) Regional Office indicated that more data analysis should have been done using the State's Tymshare system to compliment the QC sample.

Nebraska received a weighted score of 6.25 (of a possible 25) for its efforts in demonstrating its management and execution of the corrective action process. Corrective actions were amended as necessary, despite the lack of a formal process for evaluation of CAPs. Some evaluation occurred, although there were no analyses of costs/benefits or related indirect outcomes. Although there were general corrective actions to address error trends, corrective actions were, for the most part, too general as evidenced by the fact that enumeration and income errors were in need of more targeted corrective action. Milestones were not established nor were additional resources (i.e., staff and a corrective action coordinator) acquired during this period, despite the concern that error rates might increase. There was no county or local agency staff involvement in a corrective action planning. Documentation failed to support implementation monitoring of corrective actions, and targets were not met for the Supervisor's Handbook, which was the major project. Partial credit was given for the target dates established in the October 1979 - March 1980 CAP since these would have an impact on FY 1981.

Attachment

NEBRASKA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	57
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	24
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	18

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	15

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	75
1. Use of Data (P) - Use of available source data (e.g. BENDEX,IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	15
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	15

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	78
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	30
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	18

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	25
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	5
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	5
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	10
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 57 x .30 = 17.10
B 75 x .20 = 15.00
C 78 x .25 = 19.50
D 25 x .25 = 6.25

Score = 57.85

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v)

STATE: Nebraska

WAIVER EVALUATION FINDINGS

I. Corrective Action Plan (CAP) (42 CFR 431.802 (f)(2)(v)

A. Demonstrated Commitment by Top Management

27 points (weighted by .20)= score of 5.40

Documentation exists to allow full credit for the following:

- accessibility of staff responsible for corrective action (CA) to top management

Documentation exists to allow partial credit for the following:

- Timely submission of CAPs for two review periods,
- assignment of quality control (QC) responsibilities to the appropriate level of management,
- development of an automated eligibility system, and
- installation of a series of direct telephone lines between the State office and local department for policy interpretation.
- delegation of CA responsibilities to the appropriate level of management or management component
- reorganization of agency

Insufficient documentation exists to allow credit for the following:

- Enunciation of CA goals in agency policy,
- efforts by top management to assure timeliness and independence of QC reviews,
- establishment of performance standards for management and staff reflective of their accountability for error reduction,
- development of system geared to error rate reduction, and
- regular CA meetings.

B. Sufficiency and Quality of System Designed to Reduce Errors

45 points (weighted by .15)= score of 6.75

Documentation provided to allow full credit for the following:

- CA outputs used by responsible officials

Documentation provided to allow partial credit for the following:

- Use of source data (e.g., Beneficiary Data Exchange, Supplemental Data Exchange),
- systems resources available for CA, and
- systems output sent to responsible officials.

Insufficient documentation exists to allow credit for the following:

- evaluation of current systems as potential CA tool
- consideration of alternatives to current system
- provision of output training to users

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

70 points (weighted by .15) = score of 10.50

Documentation provided to allow full credit for the following:

- Adherence to QC data submission requirements,
- analysis of State QC sample by element, nature and source of errors, and
- trend analysis.

Documentation exists to allow partial credit for the following:

- Preparation of narrative explanation of QC data analysis
- performance of program analysis.

Insufficient documentation provided to allow credit for the following:

- Analysis of Federal re-review findings.

D. Management and Execution of Corrective Action Process

58 points (weighted by .50) = score of 29.0

Documentation exists to allow full credit for the following:

- Development of CAs for all significant error elements
- implementation of majority of planned CAs,
- revision of CAs as necessary, and
- establishment of target dates.

Documentation exists to allow partial credit for the following:

- Implementation monitoring.

Insufficient documentation exists to allow credit for the following:

- consideration of allocation of resources, and
- evaluation of CAs.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 51.65 ADJUSTED SCORE: 83.55

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

II. Legal and Philosophical Arguments

Nebraska advanced legal and philosophical arguments which were not considered under the good faith waiver provisions of 42 CFR 431.802(f)(2)

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Thomas H. Kean
State House
Trenton, New Jersey 03625

Dear Governor Kean:

On March 10, 1983, New Jersey was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. In May 1983, New Jersey submitted a request for waiver and this letter is to advise you of my final decision to waive 83.65 percent of the disallowance amount. This results in a reduction of the potential disallowance from $1,280,000 to approximately $209,280.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Social Services
Regional Director, HHS, Region II
Regional Administrator, OFA, Region II

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: New Jersey

Waiver Evaluation Findings

New Jersey requested a waiver on the basis of a strike of county welfare employees in Hudson County during July 1980, pursuant to 45 CFR 205.42(g)(2)(ii), an increase in workload resulting from the transfer to Hudson County of 1400 Cuban-Haitian cases in early 1981, pursuant to 45 CFR 205.42(g)(2)(iii), and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its adverse impact.

With respect to the information provided by the State regarding the strike, we arrived at the following conclusion. The extraordinary nature of the Hudson County Welfare Agency strike was supported by sufficient information. Although the State demonstrated the effect of this circumstance on the AFDC program, insufficient information was provided to demonstrate the effect on the payment error rate. We, therefore, could not consider the strike in Hudson County as a basis for granting a waiver.

The extraordinary nature of the transfer of Cuban-Haitians was not supported. This transfer was a management decision and thus, not beyond the control of the State. In addition, while the State demonstrated the effect of the circumstance on the AFDC program, insufficient information was provided to demonstrate the effect on the payment error rate. We, therefore, could not consider the transfer of Cuban-Haitian cases as a basis for granting the waiver requests.

The information provided concerning these circumstances was also considered regarding its significance to the State's request for a waiver on the basis of its good faith effort to timely develop and implement a corrective action plan reasonably designed to meet its target error rate, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. New Jersey received a total weighted score of 83.65 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

New Jersey received a weighted score of 23.40 (of a possible 30) for its effort in demonstrating commitment of top managment to the error reduction process. The Corrective Action Panel included top personnel and gave high priority to corrective action goals while actively monitoring and directing the process. Top managment was involved and accessible and made efforts to secure additional resources. The decision-making process included clear accountability and responsibility for corrective action by appropriate personnel. QC and corrective action functions were in appropriate bureaus, independent of one another. Credit was given for monthly reporting, error prone profiles, development of the set-off of the State Income Tax Refund and/or Homestead Rebate and the State's legislative move to assist the counties with administrative expenses. However, there were deficiencies in the quality and timeliness of QC reviews, and the State did not implement the required wage match. While there were several measures of county performance, there was no evidence of formal performance standards for State managers with corrective action responsibilities. Finally, only limited initiatives not specifically addressed by other elements were developed to improve the corrective action process.

New Jersey received a weighted score of 19 (of a possible 20) for its efforts in demonstrating the sufficiency and quality of systems designed to reduce errors. The State utilized the Interjurisdictional Data Exchange (IDEX), Unemployment Insurance Benefits (UIB), and Beneficiary and Earnings Data Exchange (BENDEX), made efforts to improve BENDEX's usefulness, and tried to develop the availability of school attendance information. In addition, Casino and Ford Motor Company employees were included in matching projects, and State payroll records were also matched. The Systems Analysis and Development Unit provided excellent systems support for corrective action, and the Human Services Data Center was responsive despite budget problems. Systems in place were evaluated as potential corrective action tools, and alternatives were considered. Spot checks provided effective monitoring of county welfare agency performance. Many reports were sent by the State to county welfare agencies. When it was learned that some of these reports were not being utilized, training and further monitoring was implemented by the State. Only these few utilization problems prevented the State from getting a full score in this section.

New Jersey received a weighted score of 19.50 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. The State conducted trend analysis, error element analysis, nature/source of errors, geographic breakdowns, targeted studies, limited error prone profiles and issued interim reports. Narrative explanations of data analyses were distributed to the persons and units responsible for program analysis. The State's program analysis enabled it to develop corrective actions targeted to error causes, adequately addressing the top three errors identified in the negotiated CAP. However, the documentary evidence of this analysis was limited and included no written details on error causes. Additionally, the State did not analyze Federal rereview findings, though this lack was not a major problem since the differences for the period were not significant. QC tables for both the October 1980 - March 1981 and April - September 1981 periods were submitted five months late.

New Jersey received a weighted score of 21.75 (of a possible 25) for its efforts in demonstrating the management and execution of the corrective action process. The assessment of corrective actions in the December 19, 1980 negotiated CAP addressed the highest error elements for the first Michel period. This CAP provided a basis for corrective action during FY 1981 and included milestones, resource allocation and pilot projects. County staff were involved in the planning and implementation of this CAP. Monitoring was conducted and most milestones were met with a few delays. There was an evaluation component in the negotiated CAP which continued, although in more general form, in the following (June 1981) CAP.

However, corrective actions were not evaluated based upon actual costs/benefits and related indirect outcomes. Moreover, corrective actions were not developed for enough error elements in the June 1981 CAP, with the result that 50 percent of the payment error rate was not addressed.

Attachment

NEW JERSEY
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	78
1. Demonstrated commitment to error reduction program	50	35
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	28
( ) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	15

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	95
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	30

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	78
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	10
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	28
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	30

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	87
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	12
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	25
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	40
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	10

(P) Primary

Weighting

Factor A subscore 78 x .30 = 23.40
B 95 x .20 = 19.00
C 78 x .25 = 19.50
D 87 x .25 = 21.75

Score = 83.65

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Toney Anaya
State Capitol
Santa Fe, New Mexico 87503

Dear Governor Anaya:

On March 10, 1983, New Mexico was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. In May 1983, New Mexico submitted a request for waiver and this letter is to advise you of my final decision to waive 77.10 percent of the disallowance amount. This results in a reduction of the potential disallowance from $2,493,000 to approximately $570,897.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Human Services
Regional Director, HHS, Region VI
Regional Administrator, OFA, Region VI

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: New Mexico

Waiver Evaluation Findings

New Mexico requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). The State also cited certain other factors influencing its ability to meet its target error rate. These included: an AFDC caseload increase, a high Indian and Hispanic population, the Indo-Chinese refugee program, conversion to Food Stamp computerization, high employee turnover, vast distances between communities, lack of telephones, and lack of transportation. While it was not clear if the State was formally requesting consideration of a waiver based on extraordinary circumstances under 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv), the above factors cited by the State were evaluated as if a formal request had been made under one or more of these provisions.

States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its adverse impact.

With respect to the information provided by the State in this regard, we arrived at the following conclusion. The State failed to demonstrate the extraordinary nature of the circumstances and failed to provide sufficient information to establish the extent to which the circumstances negatively affected the AFDC program and the payment error rate during the review period. The State also did not indicate what management's efforts were to respond to the circumstances. We, therefore, could not consider these factors as a basis for granting a waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. New Mexico received a total weighted score of 77.10 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

New Mexico received a weighted score of 20.10 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. New Mexico demonstrated that corrective action goals were clearly enunciated to all levels in the Department. The October 1980 - March 1981 CAP was submitted on time, efforts were made to ensure timeliness in the QC system, and the wage match was implemented. The State demonstrated that the appropriate individuals or organizational components were responsible for QC and corrective action activities. Performance standards existed for managers at the county level. Additionally, New Mexico demonstrated efforts in developing a Request For Proposal (RFP) for a Family Assistance Management Information System (FAMIS) and initiated improvements in case management during FY 1981. However, New Mexico did not demonstrate that verification standards were always applied by QC reviewers. The legislature did not appropriate funds so a flat grant system could be implemented. Furthermore, the State diverted resources to computerizing Food Stamp eligibility, and the April - September 1980 CAP was submitted three months late. In addition, accountability for the corrective action process above the Deputy Director's level was not demonstrated. Although the State recognized that a corrective action coordinator was needed, it did not appoint one until April 1982. Finally, few initiatives were demonstrated which were not addressed in other parts of the waiver claim.

New Mexico received a weighted score of 20 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. Officials responsible for corrective action had access to resources, such as staff time and hardware, to provide input into systems designed to reduce errors. Source data was made available to address the State's highest error elements, and the output generated from this source data was utilized.

New Mexico received a weighted score of 23.25 (of a possible 25) for its efforts in demonstrating use of systems and procedures for statistical and program analysis of QC and related data. New Mexico submitted its QC forms in a complete and timely fashion. The State also demonstrated that sufficient statistical analysis was conducted. An adequate explanation of QC data was circulated to the appropriate officials, and the State conducted an extensive analysis to determine causes of error. However, New Mexico did not always advise reviewers when findings were challenged. In addition, the State did not involve the appropriate individuals in the program analysis process and this deficiency affected the quality of the program analysis provided.

New Mexico received a weighted score of 13.75 (of a possible 25) for its efforts in management and execution of the corrective action process. The State selected corrective actions appropriate to address its highest error elements. Some resources were allocated to corrective action planning. Corrective actions identified in its CAPs were implemented timely. However, New Mexico did not establish milestones, costs/benefits were not assessed in advance, and there was no involvement of local staff in the corrective action planning process. Also, the State did not have a formal process in place for monitoring the implementation of corrective actions. Finally, New Mexico did not demonstrate that specific corrective actions were evaluated in terms of their effectiveness in reducing the error rate. Corrective actions were not evaluated based on costs and benefits and related indirect outcomes.

Attachment

NEW MEXICO
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	67
1. Demonstrated commitment to error reduction program	50	37
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	20
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	10

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	93
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	33
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	30

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	55
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	5
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	35
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	0

(P) Primary

Weighting

Factor A subscore 67 x .30 = 20.10
B 100 x .20 = 20.00
C 93 x .25 = 23.25
D 55 x .25 = 13.75

Score = 77.10

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Mario M. Cuomo
State Capitol
Albany, New York 12224

Dear Governor Cuomo:

On March 10, 1983, New York was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 18, 1983, New York submitted a request for waiver and this letter is to advise you of my final decision to waive 61.60 percent of the disallowance amount. This results in a reduction of the potential disallowance from $6,270,000 to approximately $2,407,680.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Human Services
Regional Director, HHS, Region II
Regional Administrator, OFA, Region II

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: New York

Waiver Evaluation Findings

New York requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v) and also cited the impact of Federally-mandated, Omnibus Budget Reconciliation Act (OBRA) program changes and court orders on its ability to meet its target error rate. While it was not clear if the State was formally requesting consideration of an extraordinary circumstance under 45 CFR 205.42(g)(2)(iii), these factors were fully weighed and evaluated as if a formal request had been made under one or more of these provisions. States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

With respect to the State's contentions in this regard, we arrived at the following findings and conclusions. New York was able to demonstrate the extraordinary nature of the court orders; however, it did not demonstrate that Federally-mandated changes had an extraordinary impact on case processing during FY 1981. The State also failed to provide information to establish the extent to which either of these circumstances negatively affected the AFDC program and the payment error rate during the review period and did not document State management's efforts to respond to the circumstances and to limit any adverse impact. We, therefore, could not consider these circumstances as a basis for granting a waiver.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. New York received a total weighted score of 61.60 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

New York received a weighted score of 16.50 (of a possible 30) for its efforts in demonstrating commitment of top management to error reduction. General corrective action goals were enunciated in agency policy. The State conducted rigorous quality control (QC) case reviews and maintained sufficient QC staffing levels. The active functioning of the State corrective action committees (including the attendance of Division Directors at those meetings), the existence of New York City error reduction performance standards and the creation of the Office of Quality Assurance in New York City also supported the State's error reduction goals. Finally, there was adequate demonstration that initiatives were taken, especially the Welfare Management System (WMS), which required and received substantial resources during the period.

The State failure to submit relevant corrective action plans in the period was a major deficiency. (No CAPs for the April - September 1980 and October 1980 - March 1981 review periods were submitted in FY 1981. A negotiated CAP based on the April - September 1980 period was submitted in February 1982.) Deficiencies were also noted in State QC sample selection and data submission and in the failure to implement a wage match in accordance with 45 CFR 205.56 (although the State demonstrated the matching of wage data from State revenue files). The failure of the State to prepare any AFDC corrective action plan for New York City, as proposed, and the stated emphasis on Food Stamp error reduction rather than AFDC demonstrated that AFDC error reduction was not the agency's priority during FY 1981. The absence of corrective action plans for this period and the lateness of QC tables demonstrated inadequate accountability for these functions. Finally, there were no procedures to hold upstate counties or New York City Income Maintenance Centers accountable for error reduction. Access to top management by State staff outside New York City was not demonstrated.

New York received a weighted score of 17.60 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) was appropriately used in New York City. Sufficiency of systems was also demonstrated by the availability of existing system resources for corrective action and WMS enhancements during the period. Systems outputs/results were sent to responsible officials and most output was appropriately utilized. Deficiencies were noted in the failure of the State to use most source data on a Statewide basis and in problems related to the utilization of face-to-face recertification printouts, the use of the enumeration procedures, and the desk audit process. Finally, there was no evidence of training to help insure that these utilization problems would not occur.

New York received a weighted score of 8.75 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. The State conducted a variety of special studies and geographic analyses, and informal program analysis was used in corrective action planning. The State completed only the tables for the April - September 1980 period during FY 1981 and completed QC tables for neither period were submitted on a timely basis. The State also failed to analyze error elements, Federal review findings or nature/source of error for either the April - September 1980 or the October 1980 - March 1981 QC periods during FY 1981. The State also failed to prepare or transmit any formal narrative explanation of data analysis for these periods during FY 1981. Finally, there was no evidence that any written State report of program analysis findings was prepared. In a large State, with multiple organizational units and different jurisdictions responsible for corrective action planning, implementation and evaluation, a more formal program analysis process is essential.

New York received a weighted score of 18.75 (of a possible 25) for its management and execution of the corrective action process. In the absence of CAPs, information submitted in support of New York's negotiated CAP, the Office of Family Assistance (OFA) Regional Office's Six State Strategy reports and the State's documentation submitted in response to Action Transmittal 82-17 were used to ascertain that corrective actions were identified for all significant errors. The State also demonstrated allocation of resources to those corrective actions and limited local involvement. Major corrective actions were piloted and costs and benefits were considered. The corrective actions which were implemented during the period were significant. In addition, the documented frequency of corrective action committee meetings at the State and New York City level, and the involvement of the OFA Regional Office under the Six State Strategy helped ensure adequate, though informal, monitoring of corrective actions. A number of corrective actions were amended or discontinued. Informal evaluation was conducted regularly and formal evaluation was performed on some major corrective action pilot studies. The State, however, failed to conduct a formal written evaluation based on costs and benefits and related measures for most corrective actions. Deficiencies were also noted in the areas of establishing milestones, involving local agency staff and allocating resources for corrective action planning. Finally, the State did not have a formal monitoring process in place for monitoring all corrective actions and it was not possible to determine whether target completion dates had been met or whether all planned corrective actions had been implemented in a timely fashion.

Attachment

NEW YORK
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	55
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	20
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	15

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	88
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	18
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	25

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	35
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	5
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	15
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	0
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	15

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	75
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	35
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	10

(P) Primary

Weighting

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Factor A subscore 55 x .30 = 16.50
       B          88 x .20 = 17.60
       C          35 x .25 =  8.75
       D          75 x .25 = 18.75
                       Score = 61.60
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Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Richard F. Celeste
State House
Columbus, Ohio 43215

Dear Governor Celeste:

On March 10, 1983, Ohio was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 10, 1983, Ohio submitted a request for waiver and this letter is to advise you of my final decision to waive 68.30 percent of the disallowance amount. This results in a reduction of the potential disallowance from $3,930,000 to approximately $1,245,810.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Public Welfare
Regional Director, HHS, Region V
Regional Administrator, OFA, Region V

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Ohio

Waiver Evaluation Findings

Ohio requested a waiver on the basis of sudden and unanticipated workload change, pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42 (g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

Ohio cited an unexpected increase in unemployment during 1980-81 and indicated that this caused a significant part of a 14 percent increase in the AFDC caseload during the same period, particularly ADC-UP, which increased by about 48 percent. However, the effect upon the program and payment error rate was not sufficiently discussed or supported. Additionally, the State did not indicate what efforts were made by management to respond to the circumstance and limit its impact. Therefore, we could not consider an unanticipated workload change as a basis for granting Ohio's waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan (CAP) reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Ohio received a total weighted score of 68.30 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Ohio received a weighted score of 21.30 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. Ohio's Corrective Action Panel included all levels of management (including that of urban counties), and its letters to counties requested county participation in reducing errors. Ohio made efforts to assure timely and complete QC reviews through a 60-day completion schedule and two supervisory reviews. Responsibilities for corrective action and quality control were appropriately located. The State implemented management reviews, case alert sheets, management reports, and training. However, the required wage match was not operational during FY 1981, and the CAPs were a month late. Management accountability was not well-documented, and only one example of performance standards for managers was presented. In addition, the State documented only a limited number of initiatives, not addressed by other elements undertaken to improve corrective action.

Ohio received a weighted score of 19 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. Beneficiary and Earnings Data Exchange (BENDEX) and other data sources were utilized, and special projects such as case alert sheets and management reports were carried out, sent to the counties and utilized by the Corrective Action (CA) coordinator. The State also expanded the Client Registry Information System (CRIS) and developed profiles for the County Welfare Department (CWD) management reviews. Ohio also had assignment of support rights legislation and systems training. However, the enumeration project in the CAP was delayed because systems resources were not available.

Ohio received a weighted score of 15.75 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. QC reports were complete and timely, and the State conducted analyses of error elements and trends, geographical breakdowns, etc. It provided narrative descriptions of data analysis as part of its CAP. However, there were weaknesses in the lack of genuine analysis of Federal rereview findings, error prone profiles, significance of errors, special studies, interim reports, targeted studies, and other analyses appropriate to a State such as Ohio. These shortcomings were not addressed despite specific recommendations by the Regional Office of Family Assistance. Program analysis was also insufficient, failing to specifically identify causes of error beyond "agency" and "client". The FY 1981 CAPs showed little evidence of program analysis.

Ohio received a weighted score of 12.25 (of a possible 25) for its efforts in demonstrating management and execution of the corrective action process. The State was given credit for the error-specific corrective actions it developed, although full credit was withheld because of the failure to address all significant errors and the lack of detailed linkage between some corrective actions and specific errors. Ohio allocated some resources for planning and established the county Corrective

Action Panel, which met quarterly. Credit was also given for the verification project, the target dates which were met, and monitoring carried out by the CA Panel and CA Coordinator. Charts showing the impact of corrective actions were drawn up, but there were no cost/benefit analyses or evaluations of related indirect outcomes. Moreover, the overall monitoring effort was weak, particularly because the CAPs lacked specific milestones. The documentation also indicated a specific problem with allocation of resources for the monthly reporting and enumeration corrective actions; consequently these were (1) not implemented and (2) seriously delayed, respectively.

Attachment

OHIO
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	71
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	39
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	22

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	10

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	95
1. Use of Data (P) - Use of available source data (e.g. BENDEX,IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	40
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	63
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	25
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	8

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	49
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	9
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	10
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	25
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 71 x .30 = 21.30
B 95 x .20 = 19.00
C 63 x .25 = 15.75
D 49 x .25 = 12.25

Score = 68.30

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable George Nigh
State Capitol
Oklahoma City, Oklahoma 73105

Dear Governor Nigh:

On March 10, 1983, Oklahoma was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Oklahoma failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Oklahoma requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA), respectively.

This letter is to advise you of my final decision to waive 75 percent of the AFDC disallowance amount. This results in a reduction of the potential disallowance from $1,508,000 to approximately $377,000. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 77.95 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $1,169,832 to approximately $257,948. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Human Services
Regional Director, HHS, Region VI
Regional Administrator, OFA, Region VI
Regional Administrator, HCFA, Region VI

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Oklahoma

Waiver Evaluation Findings

Oklahoma requested a waiver on the basis of a sudden and unanticipated workload change, pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of unanticipated workload changes resulting from combining services and eligibility functions, planning for the Omnibus Budget Reconciliation Act, the Division of Oklahoma County, the implementation of the Home Energy Assistance Program, and the Hay Study, the following was concluded. In all of these circumstances, decisions to divert staff from AFDC eligibility functions were management decisions within the control of the State, and thus, not extraordinary. In addition, Oklahoma failed to provide sufficient information to establish the extent to which the circumstances negatively affected the AFDC program and the payment error rate during the review period. The State also did not indicate what management's efforts were to respond to the increased workload. We, therefore, could not consider an unanticipated workload change as a basis for granting Oklahoma's waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42 (g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Oklahoma received a total weighted score of 75 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Oklahoma received a weighted score of 22.50 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. Oklahoma demonstrated that it took measures to assure the timeliness and quality of State QC reviews, CAPs were submitted on time and the wage match was implemented. The State also received credit for demonstrating that accountability for decisions in the corrective action process and the responsibility for implementing these decisions was delegated to the appropriate individuals. However, there was no documentation to indicate that performance standards existed to ensure that managers were held accountable. Oklahoma did not demonstrate that corrective action goals were clearly enunciated throughout the agency. For example, county offices were not informed of the Statewide errors and therefore, could not have known what corrective action goals existed. Finally, Oklahoma received credit for its program of recoupment of overpayments aimed at improving the corrective action process during the first Michel period. This initiative was not specifically addressed in any other element of the scoring instrument.

Oklahoma received a weighted score of 20 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. Adequate systems resources were in place and were evaluated for corrective action purposes. The State also demonstrated that systems outputs were sent to responsible officials and these officials used the outputs for corrective action purposes.

Oklahoma received a weighted score of 23.75 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. Oklahoma submitted its QC forms in a complete and timely fashion. Basic statistical analysis was conducted in addition to geographic error analysis. The description of Oklahoma's statistical data was sufficiently clear for corrective action purposes, and program operations were adequately analyzed to determine the causes of errors. Oklahoma did not demonstrate that error prone profiling, targeted studies or augmented samples were conducted during the first Michel period. A State the size of Oklahoma with two large urban areas, Oklahoma City and Tulsa, would be expected to conduct more than the very basic statistical analysis, which was documented.

Oklahoma received a weighted score of 8.75 (of a possible 25) for its efforts in demonstrating management and execution of the corrective action process. Oklahoma developed corrective actions to address its significant error elements during the first Michel period. The State also documented that it allocated some resources to corrective action planning. Oklahoma did not demonstrate that milestones were established in the planning process to later track the implementation of corrective actions. The State also did not demonstrate that a cost/benefit analysis of potential correctve actions was conducted or that local offices were involved in the corrective action planning process. Although Oklahoma developed corrective actions to address its significant error elements, very few of the planned corrective actions were implemented. Only one of the four actions implemented addressed a specific error element and this one element was less than one percent of the error rate. The other three actions were general in nature and not designed to address specific errors. The State did not provide documentation to indicate that it monitored implementation of the plan or had a process in place for amending or discontinuing corrective actions. Finally, there was no documentation to indicate that corrective actions were evaluated.

Attachment

OKLAHOMA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	75
1. Demonstrated commitment to error reduction program	50	40
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	25
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	10

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	95
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	30
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	35

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	35
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	5
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	0

(P) Primary

Weighting

Factor A subscore 75 x .30 = 22.50
B 100 x .20 = 20.00
C 95 x .25 = 23.75
D 35 x .25 = 8.75

Score = 75.00

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v))

State: OKLAHOMA

WAIVER EVALUATION FINDINGS

I. Corrective Action Plan (CAP) (42 CFR 431.802(f)(2)(v))

A. Demonstrated Commitment by Top Management

21 points (weighted by .20) = score of 4.20

Documentation exists to allow partial credit for the following:

- Timely submittal of CAPs for three out of four review periods,
- some enunciation of CA goals,
- training materials,
- staff level accountability for error reduction,
- performance levels of staff related to error reduction, and
- comprehensive training activities. .

Insufficient documentation exists to allow credit for the following:

- Efforts by top management to assure independence, timeliness and quality of State quality control (QC) reviews,
- access by CA staff to top management, and
- regular CA meetings at top management level.

B. Sufficiency and Quality of Systems Designed to Reduce Errors

86 points (weighted by .15) = score of 12.90

Documentation exists to allow full credit for the following:

- Numerous data matches, and
- assurance that State staff received and used CA outputs.

Documentation exists to allow partial credit for the following:

- Consideration of alternative Medicaid systems,
- evaluation of current system as a tool for overall CA,
- significant staff training in use of outputs, and
- assignment of systems programs to be used to reduce errors.

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

73 points (weighted by .15) = score of 10.95

Documentation exists to allow full credit for the following:

- Adherence to QC data submission requirements, and
- analysis of State QC data and program operations sufficient to design appropriate CA, and
- analysis of data by nature/sources of errors and geographic breakdown.

Documentation exists to allow partial credit for the following:

- Analysis of some Federal re-review findings.

Insufficient documentation exists to allow credit for the following:

- Regular meetings of CA committees, and
- transmittal of narrative QC data analysis to those responsible for program analysis.

D. Management and Execution of CA Process

36 points (weighted by .50) = score of 18.00

Documentation exists to allow full credit for the following:

- Development of CAs for all significant error elements,
- implementation of majority of planned CAs, and
- ongoing process for amending CAs as necessary.

Insufficient documentation exists to allow credit for the following:

- Establishment of milestones,
- consideration of resource allocation,
- assessment of costs/benefits,
- pilot project,
- monitoring of CA implementation, and
- evaluation of CA implementation.

II. Sudden and Unanticipated Workload (42 CFR 431.802 (f)(2)(iii)

The State reported it failed to achieve MQC target due to sudden and unanticipated workload caused by:

- Integration of services and eligibility,
- implementation of Omnibus Reconciliation Act of 1981,
- division of large county office into three smaller local offices,
- implementation of Home Energy Assistance Program, and
- poor staff morale due to revisions in personnel classification system.

Request denied as State failed to meet the following criteria outlined in our letter of July 22, 1983:

- State failed to establish that the increased workload could not have been anticipated,
- State failed to establish circumstances were beyond its control, and
- State failed to identify the percentage of caseload affected or the cases impacted.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 46.05 ADJUSTED SCORE: 77.95

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

III. Philosophical and Legal Arguments

Oklahoma advanced legal and philosophical arguments which were not considered under the good faith waiver provisions of 42 CFR 431.802 (f)(2).

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Carlos Romero-Barcelo
La Fortaleza
San Juan, Puerto Rico 00901

Dear Governor Romero-Barcelo:

On March 10, 1983, Puerto Rico was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 27, 1983, Puerto Rico submitted a request for waiver and this letter is to advise you of my final decision not to waive any of Puerto Rico's disallowance amount.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Social Services
Regional Director, HHS, Region II
Regional Administrator, OFA, Region II

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Puerto Rico

Waiver Evaluation Findings

Puerto Rico requested a waiver on the basis of a natural disaster (hurricane), pursuant to 45 CFR 205.42(g)(2)(i), and a workload increase, pursuant to 45 CFR 205.42(g)(2)(iii). States requesting a waiver based on 45 CFR 205.42(g)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; and (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of the two 1979 hurricanes, the following was concluded. Puerto Rico did not demonstrate that the circumstance was relevant and failed to identify the extent to which the circumstance negatively affected the AFDC program or the payment error rate in FY 1981. Puerto Rico also provided insufficient information regarding efforts to limit the impact of the hurricane. We, therefore, could not consider this natural disaster as a basis for granting a waiver.

Your request for waiver cited three separate circumstances as contributing to a workload increase in Puerto Rico. These circumstances were; (1) the impact of special payments and the Low Income Home Energy Assistance Program; (2) the impact of a desk review of all cases receiving Social Security benefits; and (3) the impact of the implementation of a computerized system.

In evaluating the impact of special payments and the Low Income Home Energy Assistance Program which you indicated resulted in a workload increase, the following was concluded. Puerto Rico presented insufficient information to demonstrate the extraordinary nature of this circumstance and provided no information to demonstrate the extent to which it negatively affected the AFDC program and the payment error rate in FY 1981. Finally, the State's request provided insufficient information regarding management efforts to limit the impact of either circumstance.

With regard to the desk review of all cases receiving Social Security benefits which you also indicated resulted in a workload increase, the following was concluded. The waiver request provided insufficient information to document the extraordinary nature of the circumstance and provided no information regarding the effect on the AFDC program and the payment error rate. The waiver request cites the relationship of overdue redeterminations to errors during the period, but fails to demonstrate that there was any significant increase in redeterminations during FY 1981 or that this circumstance was responsible for the State's failure to achieve its target. The request also provided no information on management efforts to limit the impact of the circumstance.

In evaluating the impact of the implementation of a computerized system which you also indicated resulted in a workload increase, the following was concluded. The documentation submitted in support of the request failed to establish the extraordinary nature of the circumstance and provided no information regarding the effect on the AFDC program and the payment error rate. Again, the waiver request cites the relationship of overdue redeterminations to errors during the period, but fails to demonstrate that there was any significant increase in redeterminations during FY 1981 or that this circumstance was responsible for the State's failure to achieve its target. The request also provides no information on management efforts to limit the impact of the circumstance.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Richard W. Riley
State House
Columbia, South Carolina 29211

Dear Governor Riley:

On March 10, 1983, South Carolina was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 18, 1983, South Carolina submitted a request for a waiver and this letter is to advise you of my final decision to waive 87.50 percent of the disallowance amount. This results in a reduction of the potential disallowance from $1,004,000 to approximately $125,500.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Social Services
Regional Director, HHS, Region IV
Regional Administrator, OFA, Region IV

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: South Carolina

Waiver Evaluation Findings

South Carolina requested a waiver on the basis of a sudden and unanticipated workload change pursuant to 45 CFR 205.42 (g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of the increase in the Food Stamp caseload which you indicated resulted in an overwhelming increase in intake and a disproportionate decrease in staff for other programs, including AFDC, the following was concluded. The diversion of staff to the Food Stamp program would appear to have been within the control of the State - a management decision - and thus not extraordinary. The State did not indicate what management's efforts were to respond to the unanticipated workload. In addition, South Carolina failed to provide sufficient information to establish the extent to which the circumstance negatively affected the AFDC program and the payment error rate during the review period. We, therefore, could not consider an unanticipated workload change resulting from an increase in the Food Stamp caseload as a basis for granting South Carolina's waiver request.

States requesting waivers on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to th factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. South Carolina received a total weighted score of 87.50 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

South Carolina received a weighted score of 21 (of a possible 30) for its efforts in demonstrating commitment by top management. The State submitted its corrective action plans in a fairly timely fashion and demonstrated that individuals responsible for the corrective action process had access to top management.

Management accountability for the corrective action process appeared to be adequate and performance standards for managers reflected their accountability for error reduction. South Carolina was also given credit for several error reduction strategies not credited elsewhere, initiated during FY 1981.

The IV-A agency, however, underwent several staffing cuts during FY 1981. These cuts were indications that management was not committed to carrying out its corrective action goals, although these goals had been formally enunciated through a Management by Objectives plan and policy memorandum. In addition, the quality of QC reviews was affected by the State's failure to adhere to verification standards and South Carolina did not implement the Federally mandated wage match.

South Carolina received a weighted score of 19 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. South Carolina utilized available source data and the manual/automated systems in place were sufficient to reduce errors. South Carolina provided systems output results related to major error elements to the staff responsible for corrective action and these staff acted on the results provided. The State did not, however, utilize output resulting from Project Match.

South Carolina received a weighted score of 25 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. The required QC forms and tables were submitted in a complete and timely fashion. Analysis of the State QC samples by error element and related statistical analysis was found to be adequate. A sufficient narrative explaining QC data analysis was transmitted to those responsible for program analysis. Finally, the State demonstrated that program operations were sufficiently analyzed to determine the cause of errors.

South Carolina received a weighted score of 22.50 (of a possible 25) for its efforts in demonstrating management and execution of the corrective action process. The corrective actions developed were appropriate to address a significant percentage of the payment error rate. South Carolina also demonstrated that a corrective action planning process was in place which established milestones, allocated resources, and addressed the other indicators listed in Section D.2 of the "Weights and Factors". The State also demonstrated that corrective action implementation was monitored and corrective actions designated in the CAPs were fully implemented. Although the result of corrective actions with respect to error rate reduction were evaluated in a general sense, costs and benefits and related indirect outcomes were not evaluated.

Attachment

7

SOUTH CAROLINA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	70
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	20
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	30

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	95
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	30

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	100
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	35

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	90
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	25
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	45
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore	70 x .30 =	21.00
B	95 x .20 =	19.00
C	100 x .25 =	25.00
D	90 x .25 =	22.50
	Score =	87.50

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable William J. Janklow
State Capitol
Pierre, South Dakota 57501

Dear Governor Janklow:

On March 10, 1983, South Dakota was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 18, 1983, South Dakota submitted a request for waiver and this letter is to advise you of my final decision to waive 67.80 percent of the disallowance amount. This results in a reduction of the potential disallowance from $13,000 to approximately $4,186.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment for all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Secretary, Department of Social Services
Regional Director, HHS, Region VIII
Regional Administrator, OFA, Region VIII

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: South Dakota

Waiver Evaluation Findings

South Dakota requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting such a waiver were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v) (A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. South Dakota received a total weighted score of 67.80 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

South Dakota received a weighted score of 19.80 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. The State implemented the required wage match, and top management was accessible to corrective action staff. Although the State agency expressed concern about errors and corrective action, written memoranda described only the corrective action process and relevant responsibilities and also outlined the Department's new policy interpretation concerning enumeration. There was a lack of a clear and sufficient enunciation of specific corrective action goals. Management made efforts to ensure timely and complete QC reviews. Corrective action and quality control responsibilities were appropriately delegated. An informal process for dealing with errors as they were identified, which also involved technical staff, was in place and was found to be adequate by the Office of Family Assistance (OFA) Regional Office. Performance standards were in effect for district managers and district program supervisors who also had a hand in error reporting and corrective action planning. The State undertook initiatives wherein it rewrote the administrative rules manual, conducted a survey of the effectiveness of home visits, and planned a bank match. However, several other initiatives presented were not specifically directed at improving corrective action or were outside the first Michel period. Moreover, a formal process to determine accountability was not documented nor were any examples given. The State's assertion that relatively high administrative costs demonstrated management's commitment to error reduction was not explained or clarified.

South Dakota received a weighted score of 16 (of a possible 20) for its efforts in demonstrating the sufficiency and quality of systems designed to reduce errors. Full credit was given for its use of available source data, the Beneficiary and Earnings Data

Exchange (BENDEX), and the wage match. The use of the information from the Bureau of Indian Affairs was also valuable for a State like South Dakota. Resources were generally accessible to appropriate staff. Although outputs/results were sent to responsible individuals, utilization of the outputs, training in the use of outputs, and the accessibility of hardware for corrective action were not sufficiently documented. A management review by the OFA Regional Office indicated that good working relationships existed between Research and Statistics and Quality Control staffs. South Dakota implemented monthly reporting and retrospective budgeting. The State's Management Information System produced monthly caseload status reports. There was automatic assignment of support and an enumeration agreement. No credit could be given for supervisory case reviews and district supervisors' monthly reports as these were dated after FY 1981.

South Dakota received a weighted score of 19 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. Although QC tables were submitted in complete form, they were submitted three months late. Analyses were conducted by error element, nature/source of error, and geographic breakdown. The State analyzed difference cases related to Federal interpretation of the enumeration requirement, resulting in new instructions to caseworkers which demonstrated an awareness of the implications of the change. Narrative explanations of QC data were provided with each CAP and appropriately transmitted. CAPs included some program analysis, which was also carried out by the multi-county service area supervisors. Although CAP program analysis was limited, it was in accord with the State's limited data base, small sample size, and low error rate. However, in view of these factors, statistical analysis should have been more extensive. For example, significance of errors tests, interim reports, augmented samples, targeted studies, or other statistical analysis should have been completed.

South Dakota received a weighted score of 13 (of a possible 25) for its efforts in demonstrating its management and execution of the corrective action process. While only two specific corrective actions were implemented (monthly reporting/retrospective budgeting and the new enumeration policy), these addressed only two of three error clusters. Although not a part of the CAP, the follow-up by district program supervisors on mineral leases addressed the third largest error of lease income. The State presented evidence of a formal procedure for establishing milestones but no evidence of their actual use. There was a process in place for resource allocation, however no documentation was provided to demonstrate that resources supported planning efforts. It could be presumed that resources were allocated for the implementation and operation of monthly reporting/retrospective budgeting and the enumeration fix. Although District staff were involved in planning, no credit could be given for the assessment of anticipated costs/benefits alluded to in the April - September 1981 CAP as this was done outside the first Michel period. The informal monitoring was considered adequate but the formalized monitoring process established by the State was not utilized. The State conducted general evaluations, but there were no evaluations of actual costs/benefits or related indirect outcomes.

Attachment

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SOUTH DAKOTA
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	66
1. Demonstrated commitment to error reduction program	50	36
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	20
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	10

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	80
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	40
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	20

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	76
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	14
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	27
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	25

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	52
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	10
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	22
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

Factor A subscore 66 x .30 = 19.80
B 80 x .20 = 16.00
C 76 x .25 = 19.00
D 52 x .25 = 13.00

Score = 67.80

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Lamar Alexander
State Capitol
Nashville, Tennessee 37219

Dear Governor Alexander:

On March 10, 1983, Tennessee was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance unless the State submits a request for waiver of the disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 13, 1983, Tennessee submitted a request for waiver and this letter is to advise you of my final decision to waive 83.85 percent of the disallowance amount. This results in a reduction of the potential disallowance from $1,754,000 to approximately $283,271.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment of all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Human Services
Regional Director, HHS, Region IV
Regional Administrator, OFA, Region IV

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Tennessee

Waiver Evaluation Findings

Tennessee requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting such a waiver were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Tennessee received a total weighted score of 83.85 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Tennessee received a weighted score of 25.50 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. This reflects the enunciation of error reduction as an agency priority in response to an increasing error rate in prior periods, the successful efforts to restore some of the positions lost in 1980-81, the organizational access to top management and timely submission of the CAPs. Tennessee also demonstrated commitment by management to strengthen accountability for the corrective action process at the county and regional level and to bring the viewpoints of quality control management into the corrective action process. In view of this multi-level accountability and the specific assignment of corrective action responsibilities at the State and local level, the absence of performance standards was not considered as an obstacle to achievement of agency goals. The State's request also demonstrated initiatives not specifically addressed by other elements in the form of extensive State resources devoted to systems and training activities. Full score was not received because of the serious problems with the quality of QC data, in spite of its timely submission, and the late implementation of the wage data match in a State where earned income was a major error element. In addition, despite the enunciation of goals, insufficient priority was given to error reduction specifically in the AFDC program.

Tennessee received a weighted score of 17.60 (of a possible 20) for its demonstration of sufficiency and quality of systems designed to reduce errors. Available source data (e.g., from various matches) were adequately and appropriately used. The State maintained its existing system while developing alternatives such as the Quick Update Entry System (QUEST). In addition, the State's evaluation of the Tennessee Welfare Information System (TWISS), especially involving county users was further indication of the concern for reducing the manual workload of caseworkers. Tennessee also demonstrated satisfactory performance in transmitting output to the counties within the limitations of the existing system, which were recognized by the State. A deficiency was noted in the State's failure to make TWISS data readily available to individuals responsible for corrective actions and to require county workers to effectively utilize output and procedures, especially wage data and enumeration. The State did respond to these problems, which affected major error areas, late in the period in the form of manual revisions.

Tennessee received a weighted score of 20 (of a possible 25) for its use of systems and procedures for statistical and program analysis of QC and related data. QC tables for the first Michel period were submitted complete and in a timely fashion. The State analyzed the sample by error elements and by source, provided geographical breakdowns, and prepared statistical tests. The State also transmitted narrative descriptions of QC data to those responsible for program analysis and conducted informal program analysis at the State and local corrective action committee level. A major deficiency was noted in the failure to analyze Federal rereview findings. In spite of the low number of differences, this may have helped obscure the emergence of enumeration as a major error problem. A deficiency was also noted in the absence of formal written program analysis at the State level.

Tennessee received a weighted score of 20.75 (of a possible 25) for its management and execution of the corrective action process. This reflects the performance of the State in designing corrective actions with a clear connection to the errors and the aggressiveness of major counties in undertaking corrective actions as problems were identified. The State also demonstrated the appropriate allocation of resources for corrective action, the involvement of county staff in the corrective action process and the careful planning and implementation of three pilot projects, all of which were the basis for statewide actions taken in FY 1982. Tennessee also demonstrated overall effectiveness in timely implementing most corrective actions with the informal monitoring process that was in place. Extensive resources were employed in the evaluation of the 1115 Demonstration Project in its 13-month life as well as in the evaluation of agency training. Deficiencies were noted in the failure of the State to regularly attach interim milestones to corrective actions, which made it more difficult to amend (i.e., accelerate) planned actions to meet emerging needs, and in the failure to effectively implement corrective action for enumeration errors on a timely basis. Finally, the informal nature of the evaluation of most corrective actions limited the State's ability to transfer successful practices from county to county.

Attachment

ATTACHMENT

TENNESSEE
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	85
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g., policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g., computer time, additional staffing) - Other indicators as presented by the State	50	35
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	30

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	88
1. Use of Data (P) - Use of available source data (e.g., BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g., staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g., management information systems) - Consideration of alternatives to current system (e.g., assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g., monthly reporting, retrospective budgeting, local agency monitoring systems)	45	40
3. System Utilization (P) - Systems output/results sent to responsible official. (e.g., reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	28

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	80
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis ot Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	30
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	20

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	83
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	22
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	38
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	8

(P) Primary

Weighting

Factor A subscore 85 x .30 = 25.50
B 88 x .20 = 17.60
C 80 x .25 = 20.00
D 83 x .25 = 20.75

Score = 83.85

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Mark White
State Capitol
Austin, Texas 78711

Dear Governor White:

On March 10, 1983, Texas was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 18, 1983, Texas submitted a request for waiver and this letter is to advise you of my final decision to waive 71.65 percent of the disallowance amount. This results in a reduction of the potential disallowance from $1,112,000 to approximately $315,252.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment of all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Human Resources
Regional Director, HHS, Region VI
Regional Administrator, OFA, Region VI

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Texas

Waiver Evaluation Findings

Texas requested a waiver on the basis of the effects of Hurricane Allen, pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstances; (2) the extent to which the circumstance affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact. (See attachment)

Texas states that in August 1980, Hurricane Allen disrupted AFDC operations for six days in Texas's Region Eight counties while staff in these counties issued emergency food stamps. However, the State's request does not provide sufficient information to establish the extent to which the hurricane negatively affected the AFDC program and payment error rate during the period under review. Moreover, the State did not provide any information on what management efforts were taken to respond to the disaster to limit its impact on the AFDC program. Therefore, we could not consider the effects of Hurricane Allen as a basis for granting Texas' waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Texas received a total weighted score of 71.65 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See enclosure.)

Texas received a weighted score of 21.90 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. Texas included corrective action and error reduction priorities in the FY 1981 Management by Objective plan and in memoranda to State regional offices. Responsibility for corrective action and error reduction was appropriately delegated and located. Moreover, Texas undertook various initiatives to improve corrective action, such as handbook revisions and training. However, Texas failed to follow QC verification procedures and conducted the required wage match on recipients only. It was not clearly documented how managers were accountable to the Texas Board of Human Resources, and performance standards for managers did not specifically address error reduction.

Texas received a weighted score of 20 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. The State utilized the Beneficiary and Earnings Data Exchange (BENDEX) and the Systems Data Exchange (SDX), was involved in Project Match and participated in a quarterly wage match with the Texas Employment Commission. Several systems were in place to reduce errors, alternatives were considered and resources (e.g., staff time, hardware) were accessible to individuals responsible for corrective action. Monthly activity reports, System for Application, Verification, Eligibility, Reporting and Referral (SAVERR) reports, and BENDEX data were available to staff and utilized in planning. Training in use of outputs was ample.

Texas received a weighted score of 17.50 (of a possible 25) for its efforts in demonstrating its use of systems and procedures for statistical and program analysis of QC and related data. QC tables were complete and timely. The State was given credit for its error element analysis, trend analysis, breakdown of nature/source of errors, regional breakdowns, and other analyses. Narrative descriptions of data were provided in the QC report and CAPs. Credit was given for special case reading and the Agency Error Reduction Plan. However, there were problems with program analysis, as cited in the Office of Family Assistance (OFA) Regional Office management review and a concept paper developed by the State. Additionally, the State did not analyze Federal rereview findings, nor did it conduct error prone profiles or adequate statistical tests or other analyses, such as augmented samples and targeted studies.

Texas received a weighted score of 12.25 (of a possible 25) for its efforts in the management and execution of corrective action processes. With respect to corrective action planning, milestones were established for some actions, State regional staff involvement in the planning process was evident, an additional analytical staff position was created and minimal analysis of anticipated costs/benefits with regard to one proposed action was conducted. There was also evidence of regional monitoring and informal State monitoring. The Corrective Action Committee was also active in amending or discontinuing corrective actions. However, evaluations were general and did not address actual costs and benefits or related indirect outcomes. Further, many of the corrective actions in the April - September 1980 CAP and the October 1980 - March 1981 CAP were general training activities and not error specific. The long-term corrective actions lacked consistently established milestones, and less than half of the corrective actions planned for FY 1981 were implemented timely.

Attachment

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TEXAS
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	73
1. Demonstrated commitment to error reduction program	50	35
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	18
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	70
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	25
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	15

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	49
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	7
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	15
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	22
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	5

(P) Primary

Weighting

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Factor A subscore  73 x .30 = 21.90
       B          100 x .20 = 20.00
       C           70 x .25 = 17.50
       D           49 x .25 = 12.25

                  Score = 71.65
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Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Norman H. Bangerter
State Capitol
Salt Lake City, Utah 84114

Dear Governor Bangerter:

On March 10, 1983, Utah was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Utah failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Utah requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA), respectively.

This letter is to advise you of my final decision to waive 93.60 percent of the AFDC disallowance amount. This results in a reduction of the potential disallowance from $297,00 to approximately $19,008. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 93.75 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $614,039 to approximately $38,377. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Executive Director, Department of Social Services
Executive Director, Utah Department of Health
Regional Director, HHS, Region VIII
Regional Administrator, OFA, Region VIII
Regional Administrator, HCFA, Region VIII

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Utah

Waiver Evaluation Findings

Utah requested a waiver on the basis of a sudden and unanticipated workload change pursuant to 45 CFR 205.42(g)(iii), State actions resulting from incorrect policy interpretation to the State by a Federal official, pursuant to 45 CFR 205.42(g)(iv), and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(v). States requesting a waiver based on 45 CFR 205.42(g)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance negatively affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of sudden and unanticipated workload changes resulting from changes in Federal laws and regulations and an unpredictable caseload growth, the following was concluded. Utah failed to provide sufficient information to establish the extent to which the circumstance negatively affected the AFDC program and the payment error rate during the review period. The State also did not indicate what management efforts were taken to respond to the unanticipated workload. We, therefore, could not consider a sudden and unanticipated workload increase as a basis for granting Utah's waiver request.

With respect to incorrect policy interpretations by Federal officials concerning Utah's enumeration procedures, the following was determined. Enumeration errors had erroneously been cited by Federal quality control staff unaware that Utah had an agreement to receive newly issued Social Security Numbers (SSN) from the Social Security Administration (SSA). As we indicated in a June 24, 1983 letter to Mr. Andrew L. Gallegos, Utah's FY 1981 payment error rate has been adjusted from 6.7 percent to 4.9 percent to account for these erroneously cited enumeration errors. Thus, this issue was not considered as a basis for granting the State's waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Utah received a total weighted score of 93.60 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Utah received a weighted score of 26.10 (out of 30) for its efforts in demonstrating commitment of top management to the error reduction program. Utah demonstrated that corrective action goals were clearly enunciated to staff. The State ensured the quality and timeliness of QC reviews and that staff responsible for corrective actions had access to top management. Management accountability for the corrective action process was demonstrated through the operation of State Executive Corrective Action Panel (SECAP), the administrative review process, and the performance standards for managers reflective of their accountability for error reduction which were in place. Extensive error reduction activities, not specifically addressed elsewhere, were also initiated during the first Michel period. However, Utah did not implement the Federally-mandated wage match and the FY 1981 CAPs were submitted late.

Utah received a weighted score of 20 (out of 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. Utah established and utilized the necessary manual/automated systems and systems outputs to reduce errors, given its caseload (10,500) and error composition.

Utah received a weighted score of 25 (out of 25) for its efforts in demonstrating use of systems and procedures for statistical and program analysis of QC and related data. Required QC forms were submitted in a complete and timely fashion. Statistical analysis of QC data during FY 1981 provided sufficient opportunity for analysis and was considered adequate, given the size of the State's sample. A clear narrative explanation of QC data was provided and transmitted to those responsible for program analysis. Analysis of program operations as reflected in the "Analysis of Errors" and "Causal Factors" sections of the CAP, as well as the ongoing analytical activities by district administrative staff were sufficient to determine the cause of errors.

Utah received a weighted score 22.50 (out of 25) for its efforts in demonstrating management and execution of the corrective action process. Utah developed corrective actions to address a significant percentage of its payment error rate. Adequate resources were available for development/implementation of corrective actions, and local participation in all aspects of the corrective action process existed. Utah monitored implementation of the CAP, and the corrective actions identified for implementation during the first Michel period were implemented timely. Specific corrective actions were evaluated to determine their effectiveness. However, Utah did not demonstrate that milestones were established in the State's planning process. In addition, corrective actions were not evaluated based on costs and benefits.

Attachment

ATTACHMENT

UTAH
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	87
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	37
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	30

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	100
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	100
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	35

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	90
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	20
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	45
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	10

(P) Primary

Weighting

Factor A subscore 87 x .30 = 26.10
B 100 x .20 = 20.00
C 100 x .25 = 25.00
D 90 x .25 = 22.50

Score = 93.60

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v))

State: UTAH

WAIVER EVALUATION FINDINGS

Corrective Action Plan (CAP) (42 CFR 431.802(f)(2)(v))

A. Demonstrated Commitment by Top Management

46 points (weighted by .20) = 9.20

Documentation exists to allow full credit for the following:

- Enunciation of corrective action (CA) goals in agency policy,
- timely submittal of complete CAPs.

Documentation exists to allow partial credit for the following:

- Management efforts to assure timeliness and quality of quality control (QC) reviews,
- proper assignment of QC and CA responsibilities,
- regular CA meetings at staff level,
- comprehensive training activities, and
- administrative review process monitored compliance with CAPs.

Insufficient documentation exists to allow credit for the following:

- Efforts by top management to assure independence of QC reviews,
- establishment of performance standards for management and staff reflective of their accountability for error reduction, and
- acquisition of adequate resources as identified in CAP.

B. Sufficiency and Quality of Systems Designed to Reduce Errors

53 points (weighted by .15) = 7.95

Documentation exists to allow full credit for the following:

- Establishment of accessibility to systems resources for individuals responsible for CAs, and
- uilization of CA outputs by responsible officials.

Documentation exists to allow partial credit for the following:

- Use of Beneficiary Data Exchange and Supplemental Data Exchange, and
- systems output sent to responsible officials.

Insufficient documentation exists to allow credit for the following:

- Consideration of alternative systems, and
- evaluation of in-place systems.

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

88 points (weighted by .15) = 13.20

Documentation exists to allow full credit for the following:

- Analysis of State QC sample by error elements and by nature/sources of error,
- analysis of program operations to determine cause of QC errors,
- regular meetings of CA committees.
- Narrative explanation of QC data sent to those responsible for program analysis.

Documentation exists to allow partial credit for the following:

- Adherence to QC data submission requirements, and
- analysis of Federal re-review findings.

Insufficient documentation exists to allow credit for the following:

- Trend analysis or special studies.

D. Management and Execution of CA Process

63 points (weighted by .50) = 31.50

Documentation exists to allow full credit for the following:

- Development of CA's for all significant error elements,
- establishment of a system for implementation monitoring,
- revision of CA's as necessary, and
- involvement of county or local staff in CA planning.

Documentation exists to allow partial credit for the following:

- Establishment of CA milestones,
- implementation of majority of planned CAs, and
- evaluations based on QC errors and error rates.

Insufficient documentation exists to allow credit for the following:

- Discussion of allocation of resources for CA planning.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 61.85 ADJUSTED SCORE: 93.75

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Madeleine M. Kunin
State House
Montpelier, Vermont 05602

Dear Governor Kunin:

On March 10, 1983, Vermont was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Vermont failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Vermont requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA), respectively.

This letter is to advise you of my final decision to waive 87.75 percent of the AFDC disallowance amount. This results in a reduction of the potential disallowance from $225,000 to approximately $27,563. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 98.7 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $27,184 to approximately $353. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Commissioner, Department of Social Welfare
Regional Director, HHS, Region I
Regional Administrator, OFA, Region I
Regional Administrator, HCFA, Region I

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Vermont

Waiver Evaluation Findings

Vermont requested a waiver on the basis that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting such a waiver were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(v)(2)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Vermont received a total weighted score of 87.75 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Vermont received a weighted score of 24 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. Vermont maintained an adequate QC system and provided officials responsible for implementing the CAP with access to top management. Accountability for decisions in the corrective action process was demonstrated and responsibilities for corrective action functions were delegated to the appropriate individuals. Initiatives undertaken, specifically in the area of training and manual revisions, were responsive to the corrective action needs of the State. The State also allocated resources to developing an automated eligibility system, ACCESS, during FY 1981. However, Vermont did not demonstrate that corrective action goals were clearly enunciated and the State failed to implement the wage match during FY 1981.

Vermont received a weighted score of 18 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. The State utilized available source data. Systems resources were available to eligibility workers and supervisors who were responsible for implementing corrective actions. Systems in place were evaluated as potential corrective action tools and alternatives to the current system were considered. Systems' output were provided to and utilized by staff. Data flowed to individual staff responsible for specific corrective actions and those accountable for ensuring that such action was accomplished. However, systems resources designed to detect client-caused earned income errors were not available to individuals responsible for corrective action.

Vermont received a weighted score of 25 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. The required QC forms were submitted in a complete and timely fashion. Vermont's statistical analysis of its QC data was adequate so that the presentation of data in the required formats provided sufficient statistical information to analyze the cause of errors. The narrative explanation of the QC data was clear and transmitted to those responsible for program analysis, and the program analysis conducted by the State was sufficient to determine the cause of errors.

Vermont received a weighted score of 20.75 (of a possible 25) for its efforts in demonstrating management and execution of the corrective action process. The corrective actions developed by the State during FY 1981 addressed a significant percentage of the payment error rate. Resources were allocated to corrective action planning and county/local staff were involved in corrective action planning. Vermont did not demonstrate that milestones were established in the planning process and an assessment of costs/benefits was not conducted. Vermont did implement the corrective actions identified in the negotiated CAP and maintained processes to monitor corrective action implementation and/or amend corrective actions as necessary. However, the State did not evaluate individual corrective actions with respect to their impact on the error rate. Also, a cost/benefits analysis was not conducted after corrective actions were implemented and related indirect outcomes were not considered.

Attachment

ATTACHMENT

VERMONT
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	80
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	30
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	30

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	90
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	35
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	100
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	20
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	35

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	83
1. Assessment of Corrective Actions	15	15
(P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors		
- Other indicators presented by the State		
2. Corrective Action Planning	25	18
(P) - Establishment of milestones		
(P) - Allocation of resources		
- Assessment of costs and benefits		
- Pilot projects		
- Involvement of county or local agency staff, as appropriate		
- Other indicators presented by the State		
3. Implementation of Corrective Action Plan	45	45
(P) - Implementation monitoring		
(P) - Achievement of milestones/implementation of corrective action tasks		
- Ongoing process for amending or discontinuing of corrective actions, as necessary		
- Other indicators presented by the State		
4. Evaluation of Corrective Actions and Their Implementation	15	5
Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes		

(P) Primary

Weighting

Factor A subscore 80 x .30 = 24.00
B 90 x .20 = 18.00
C 100 x .25 = 25.00
D 83 x .25 = 20.75

Score = 87.75

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v))

State: VERMONT

WAIVER EVALUATION FINDINGS

I. Corrective Action Plan (CAP) (42 CFR 431.802(f)(2)(v))

A. Demonstrated Commitment by Top Management

59 points (weighted by .20) = 11.80

Documentation provided to allow full credit for the following:

- Efforts by top management to assure timeliness and quality of State quality control (QC) reviews, and
- development of an automated system to address error concentrations,

Documentation provided to allow partial credit for the following:

- Corrective action (CA) goals enunciated in agency policy,
- access by State staff responsible for CA to top management,
- QC and CA responsibilities delegated or assigned to appropriate level of management,
- regular CA meetings,
- promotion of comprehensive training activities,
- implemented a change in case management aimed at improving the CA process by extending supervisory review,
- significant revisions of manuals and policies to reduce errors.
- timely submission of CAPs, for two periods, and
- performance standards for managers and staff.

Insufficient documentation provided to allow credit for the following:

- Acquisition by top management of adequate resources for error reduction.

B. Sufficiency and Quality of Systems Designed to Reduce Errors

72 points (weighted by .15) = 10.80

Documentation provided to allow full credit for the following:

- Systems resources accessible to individuals responsible for CAs, and
- sending systems output sent to responsible officials.

Documentation provided to allow partial credit for the following:

- Use of Beneficiary Data Exchange, Supplemental Data Exchange, data exchanges with Department of Employment on-line terminals,
- consideration of the Integrated Quality Control Data Processing System (IQC/DPS) as an alternative to the current system to provide program information,
- output results related to CA utilized by responsible staff,
- training in use of output provided to users, and
- demonstration project on a monthly reporting and retrospective accounting system.

Insufficient documentation provided to allow credit for the following:

- Evaluation of systems in place as potential CA tools.

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

68 points (weighted by .15) = 10.20

Documentation provided to allow full credit for the following:

- Timely submission of MQC tables,
- analysis of State QC sample by error elements,
- reviewing trends, nature/source, and geographic distributions of errors,
- initiating targeted studies, and
- holding regular CA meetings.

Documentation provided to allow partial credit for the following:

- Performing a limited program analysis in the CAP.

Insufficient documentation provided to allow credit for the following:

- Analysis of Federal re-review findings,
- transmission of narrative explanation of QC data analysis to those responsible for program analysis,
- utilization of augmented samples,
- special studies during the Michel period, and
- error prone profiles.

D. Management and Execution of CA Process

.68 points (weighted by .50) = 34.00

Documentation provided to allow full credit for the following:

- Development of CAs for a significant percentage of the payment error rate (excess resources) with a connection between CAs selected and errors,
- involving the local agency staff in the CA process,
- utilizing an ongoing process for amending or discontinuing CAs, and
- achievement of milestones.

Documentation provided to allow partial credit for the following:

- Establishment of milestones,
- monitoring and implementing the CA tasks, and
- actions evaluated based on reported error reduction.

Insufficient documentation provided to allow credit for the following:

- Appropriate allocation of resources,
- assessment of costs and benefits, and
- initiating pilot projects in the CA planning process.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 66.80 ADJUSTED SCORE: 98.70

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

II. State actions resulting from incorrect written policy interpretation by a Federal official (42 CFR 431.802(f)(2)(iv)).

The State reported its failure to achieve MQC target due to an incorrect policy interpretation by Federal MQC reviewers.

Request denied due to the State's failure to document written incorrect policy interpretation.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable W. Booth Gardner
Legislative Building
Olympia, Washington 98504

Dear Governor Gardrer:

On March 10, 1983, Washington was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. A subsequent letter, dated June 27, 1983, formally advised you of a similar disallowance imposed because Washington failed to meet the Medicaid eligibility payment target error rate for the same quality control sample period. The authority for these disallowances in both programs is found in legislation, commonly referred to as the Michel Amendment, and in implementing regulations found at 45 CFR 205.42 for AFDC and at 42 CFR 431.802 for Medicaid.

These regulations provide the Secretary with the authority to waive all or part of the required disallowances in certain limited cases in which a State was unable to attain its target error rate despite a good faith effort. Washington requested such a waiver in both programs. Your claims for good faith waivers were evaluated by the two agencies within the Department having programmatic responsibility for AFDC and Medicaid, the Office of Family Assistance (OFA) and the Health Care Financing Administration (HCFA), respectively.

This letter is to advise you of my final decision to waive 49.50 percent of the AFDC disallowance amount. This results in a reduction of the potential AFDC disallowance from $4,162,000 to approximately $2,101,810. Enclosed is a summary of our findings on your waiver request.

I also wish to advise you that your Medicaid disallowance will be reduced by 95.35 percent. The amount of the Medicaid disallowance will correspondingly be reduced from $2,647,350 to approximately $123,102. Our analysis and findings of your Medicaid waiver request are also provided as an enclosure.

We believe that our standards for determining the appropriateness and amount of reduction of the disallowances are fair, reasonable, and ensure equal treatment for all States. You will receive separate letters of disallowance from OFA and HCFA which will contain the specific disallowance figures and the State's appeal rights in each case. If you have any questions in the interim, please contact the Regional Administrator, OFA, or the Regional Administrator, HCFA.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Secretary, Department of Social and Health Services
Director, Division of Medical Assistance
Regional Director, HHS, Region X
Regional Administrator, OFA, Region X
Regional Administrator, HCFA, Region X

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Washington

Waiver Evaluation Findings

Washington requested a waiver on the basis of a natural disaster (the eruption of Mt. St. Helens in May 1980), pursuant to 45 CFR (g)(2)(i), a sudden and unanticipated workload change, pursuant to 45 CFR 205.42(g)(2)(iii), and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of the eruption of Mt. St. Helens and a sudden and unanticipated workload change resulting from court decisions and program policy changes, the following was concluded. Washington failed to provide sufficient information to establish the extent to which these circumstances negatively affected the AFDC program and the payment error rate during the review period. The State also did not indicate what management's efforts were to limit the impact of these circumstances. We, therefore, could not consider the eruption of Mt. St. Helens or an unanticipated workload change as a basis for granting Washington's waiver request.

States requesting a waiver on the basis of a timely developed and implemented corrective action plan (CAP) reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Washington received a total weighted score of 49.50 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Washington received a weighted score of 19.50 (of a possible 30) for its efforts in demonstrating commitment by top management in the error reduction program. The State implemented the Federally-required wage match, corrective action panels existed in each region and local offices developed CAPs which were subject to the approval of the State's regional administrators. Washington demonstrated that accountability for corrective action activities existed on both the State and local levels. The State also developed various initiatives to improve the corrective action process during FY 1981.

However, Washington did not emphasize the need for error reduction until August 1981. There was a general staff shortage in AFDC and the staff shortage in QC greatly affected the quality of the reviews as evidenced by a high number of dropped cases. The problem caused by the State incorrectly dropping cases was compounded by its refusal to review the cases once they were located by Federal QC. Due to the poor quality of the State reviews and the fact that analysis of rereviews was not done, the State could not have been reasonably assured that corrective actions were being directed to the true error cause.

Washington received a weighted score of 18 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. Available source data was used for error reduction purposes and the systems output generated was sent to responsible staff. However, more systems resources should have been committed to error reduction purposes, given the size of the State and the size of its sample.

Washington received a weighted score of 1.25 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. Although Washington did submit the required QC tables, the tables were submitted late. Due to insufficient staffing, the State QC dropped a disproportionate number of cases that were subsequently located by Federal QC. Washington chose not to review these dropped cases and waited until the Federal rereview was completed. The State abrogated its responsibility to gather the data for the tables. The State did not demonstrate that any statistical analysis was completed during the period in question, therefore, no data analysis or program analysis could have been conducted during FY 1981.

Washington received a weighted score of 10.75 of a possible 25) for its efforts in demonstrating management an execution of the corrective action process. Although Washington developed a few corrective actions which may have addressed the State's error elements, insufficient information was provided to clearly determine the appropriateness of corrective actions based on the April 1980 - September 1981 sample period. Resources were allocated to plan the CAPs and local staff were involved in corrective action planning. Also, Washington implemented some corrective actions, local CAPs were monitored and a process for amending or discontinuing corrective actions was in place.

However, Washington failed to provide resources to analyze program data necessary to plan effective corrective actions. Also, the costs and benefits of proposed corrective actions were not examined and milestones were not established. A majority of the corrective actions designed to address errors occurring during FY 1981 were not implemented. There was no evaluation of corrective actions during FY 1981.

Attachment

ATTACHMEN

WASHINGTON
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	65
1. Demonstrated commitment to error reduction program (P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda) (P) - Efforts by top management to assure timeliness and quality of State QC reviews (P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period) (P) - Timely submission of the corrective action plans for this period - Access by State staff responsible for corrective action to top management - Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing) - Other indicators as presented by the State	50	20
2. Demonstrated management accountability for the corrective action process (P) - Accountability for decisions in the corrective action process (P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components - Performance standards for managers reflective of their accountability for error reduction - Other indicators presented by the State	30	25

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	90
1. Use of Data (P) - Use of available source data (e.g. BENDEX, IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	20
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	35
3. System Utilization (P) - Systems output/results sent to responsible officials (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	5
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	5
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	0
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	0
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	0

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	43
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	5
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	13
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	25
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	0

(P) Primary

Weighting

Factor A subscore 65 x .30 = 19.50
B 90 x .20 = 18.00
C 5 x .25 = 1.25
D 43 x .25 = 10.75

Score = 49.50

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

EVALUATION OF GOOD FAITH WAIVER REQUEST
(42 CFR 431.802(f)(2)(i)-(v))

State: WASHINGTON

WAIVER EVALUATION FINDINGS

I. Corrective Action Plan (CAP) (42 CFR 431.802(f)(2)(v))

A. Demonstrated Commitment by Top Management

57 points (weighted by .20) = score of 11.40

Documentation provided to allow full credit for the following:

- Agency reorganization designed to give medical assistance program high priority,
- comprehensive training for field staff on a statewide basis, and
- development of systems geared to address error concentrations.

Documentation provided to allow partial credit for the following:

- Enhancement of the timeliness, quality, and independence of quality control (QC) reviews by training activity and policy issuances,
- proper assignment of QC and corrective action (CA) responsibilities,
- enunciation of CA goals in agency communication,
- Submittal of CAPs for 2 out of 4 review periods,
- Access by staff responsible for CA to top management, and
- establishment of performance standards for management and staff.

Insufficient documentation provided to allow credit for the following:

reflective of their accountability for error reduction, and
- regular CA meetings.

B. Sufficiency and Quality of Systems Designed to Reduce Errors

82 points (weighted by .15) = score of 12.30

Documentation provided to allow full credit for the following:

- Accessibility of systems resources to individuals responsible for CAs,
- evaluation of in-place systems as potential CA tool, and
- receipt and usage of CA outputs by responsible officials.

Documentation provided to allow partial credit for the following:

- Use of Beneficiary Data Exchange, Supplemental Data System wage data, unemployment compensation and automobile ownership data matches,
- consideration of alternative systems, and
- training in the use of ouput data.

C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data

65 points (weighted by .15) = score of 9.75

Documentation provided to allow full credit for the following:
- analysis of QC sample by error element,
- analysis of Federal re-review findings,
- trend analysis, error prone profiles and geographic breakdown of data,
- transmission of narrative explanation of QC data analysis to those responsible for program analysis.

Documentation provided to allow partial credit for the following:

- Adherence to QC data submission requirements,
- analysis of program operations to determine cause of QC errors, and

Insufficient documentation provided to allow credit for the following:

- Regular CA meetings.

D. Management and Execution of CA Process

60 points (weighted by .50) = score of 30.00

Documentation provided to allow full credit for the following:

- Development of CAs for all significant error elements,
- establishment of CA milestones,
- assessment of cost and benefits for planned CAs,
- implementation of pilot projects,
- evaluation of implemented CAs.

Documentation provided to allow partial credit for the following:

- Discussion of allocation of resources for CA planning,
- implementation of majority of planned CAs, and
- ongoing process for amending or discontinuing CA's as necessary

Insufficient documentation provided to allow credit for the following:

- Involvement of county or local staff in CA planning, and
- establishment of a system for implementation monitoring.

Adjustment to Medicaid Waiver Weighted Scores

WEIGHTED SCORE: 63.45   ADJUSTED SCORE: 95.35

We have decided an accommodation in scoring should be made on the States' behalf for the first Michel disallowance period only. We adjusted the highest Medicaid score to 100 and adjusted lower scores similarly. This adjustment increased all weighted scores by 31.9 points. The adjusted weighted score percentage will equal the percentage of disallowance dollars waived.

II. Philosophical and economic arguments

- Washington advances economic and philosphical arguments not applicable under the good faith waiver provisions of 42 CFR 431.802(f)(2).

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

The Honorable Ed Herschler
State Capitol
Cheyenne, Wyoming 82002

Dear Governor Herschler:

On March 10, 1983, Wyoming was notified that it was subject to a disallowance of Federal financial participation resulting from the State's failure to meet its Aid to Families with Dependent Children (AFDC) payment target error rate for the October 1980 through September 1981 quality control (QC) sample period. Under the provisions of the Michel amendment, a State which failed to meet its AFDC target error rate is subject to a disallowance. Furthermore, the amendment provides that in certain limited cases, all or part of the disallowance may be waived if a State was unable to reach the target error rate but has demonstrated that it made a good faith effort. On May 5, 1983, Wyoming submitted a request for waiver and this letter is to advise you of my final decision to waive 92.85 percent of the disallowance amount. This results in a reduction of the potential disallowance from $413,000 to approximately $29,530.

The Federal regulation implementing the Michel amendment (45 CFR 205.42(g)) permits reduction of a State's disallowance "in whole or in part as we find appropriate." We believe that our standards for determining the appropriateness and amount of reduction are fair, reasonable, and ensure equal treatment of all States. Enclosed is a summary of our findings on your waiver request.

You will receive a separate letter of disallowance containing the specific amount to be disallowed and describing the process for State appeal of the disallowance decision. If you have any questions in the interim, please contact the Regional Administrator for Family Assistance.

Sincerely,

Margaret M. Heckler
Secretary

Enclosure

cc: Director, Department of Health and Social Services
Regional Director, HHS, Region VIII
Regional Administrator, OFA, Region VIII

EVALUATION OF AFDC GOOD FAITH WAIVER REQUEST

(45 CFR 205.42(g))

STATE: Wyoming

Waiver Evaluation Findings

Wyoming requested a waiver on the basis of an incorrect policy interpretation given to the State by a Federal official reasonably assumed to be in a position to provide such an interpretation pursuant to 45 CFR 205.42(g)(2)(iii) and that it timely developed and implemented a corrective action plan (CAP) reasonably designed to meet its target, pursuant to 45 CFR 205.42(g)(2)(v). States requesting a waiver based on 45 CFR 205.42(g)(2)(i), (ii), (iii) or (iv) were expected to demonstrate the following: (1) the extraordinary nature of the circumstance; (2) the extent to which the circumstance affected the AFDC program and payment error rate; (3) the efforts undertaken by management to respond to the circumstance and limit its impact.

In evaluating the impact of an incorrect policy interpretation concerning enumeration procedures, the following was concluded. Although the enumeration agreement was inadequate because it did not provide for verification that the Social Security Administration (SSA) had received a form SS-5 application and accordingly issued a Social Security Number (SSN), the Office of Family Assistance (OFA) subsequently agreed to suspend any QC error differences which resulted from this agreement. The enumeration errors which were cited during FY 1981 resulted from the State's failure to follow its own procedures. Thus, these errors were not related to the Enumeration Agreement. The incorrect policy interpretation related to the Enumeration Agreement did not affect the State's error rate. We, therefore, could not consider an incorrect policy interpretation concerning enumeration procedures as a basis for granting Wyoming's waiver request.

States requesting waivers on the basis of a timely developed and implemented corrective action plan reasonably designed to meet the target error rate were evaluated with respect to the factors outlined in 45 CFR 205.42(g)(2)(v)(A-D) and the "Weights and Factors" scoring instrument which was sent to you on March 10, 1983. Wyoming received a total weighted score of 92.85 (of a possible 100). The following summary of our findings is organized according to the format of the weights and factors. (See attachment.)

Wyoming received a weighted score of 27 (of a possible 30) for its efforts in demonstrating commitment of top management to the error reduction program. Wyoming demonstrated that corrective action goals were clearly enunciated to all counties through memoranda and the close rapport between the director and the counties. Steps were also taken to ensure the quality of QC reviews. Accountability for the corrective action process was also demonstrated. A negotiated CAP was submitted as requested and the wage match was fully operational during the first Michel year. The State received credit for initiatives such as second QC reviews, monthly reporting and training activities designed to reduce errors. These initiatives were not specifically addressed in any other element of the scoring instrument. There was evidence that State QC reviews required a rereview by State QC supervisors because the reviewers failed to interpret State policy correctly. In addition, Wyoming did not demonstrate that performance standards were used for managers reflective of their accountability for error reduction.

Wyoming received a weighted score of 19.60 (of a possible 20) for its efforts in demonstrating sufficiency and quality of systems designed to reduce errors. The mostly manual systems in place were sufficient and accessible to persons responsible for corrective action and were evaluated and changed based on the evaluation. Systems outputs were utilized by responsible staff. The source data available addressed most of the State's needs. However, the use of Beneficiary and Earnings Data Exchange (BENDEX) was not operational for AFDC related elements during the first Michel year.

Wyoming received a weighted score of 24.25 (of a possible 25) for its efforts in demonstrating the use of systems and procedures for statistical and program analysis of QC and related data. The State conducted all the statistical analysis that was available or useful based on its small sample size. The narrative explanation of QC data was sufficiently specific and sent to all staff. Program operations were fully analyzed to determine the cause of errors. Wyoming did not submit Federally requested QC forms in a timely fashion for the October 1980 - September 1981 sample periods. These tables were submitted close to schedule, but not on time.

Wyoming received a weighted score of 22 (of a possible 25) for its efforts in demonstrating management and execution of the corrective action process. Resources were allocated to the corrective action planning process, the costs and benefits of prospective corrective actions were assessed and local staff were involved in the corrective action planning process. The corrective actions identified in Wyoming's negotiated CAP were implemented in a timely fashion. Wyoming did not sufficiently demonstrate that milestones were part of the corrective action planning process. The State also did not demonstrate that corrective actions were evaluated with respect to their costs/benefits and related indirect outcomes.

Attachment

ATTACHMENT

WYOMING
WEIGHTS AND FACTORS
GOOD FAITH EVALUATION (1ST MICHEL PERIOD)

	VALUE MAXIMUM	Scores
A. Demonstrated Commitment by Top Management (45 CFR 205.42(g)(2)(v)(A))	100	90
1. Demonstrated commitment to error reduction program	50	45
(P) - Corrective action goals enunciated in agency policy (e.g. policy statements, directives, memoranda)		
(P) - Efforts by top management to assure timeliness and quality of State QC reviews		
(P) - Implementation of Federally mandated error reduction activities (Note: Wage match (45 CFR 205.56) is the only required activity for 1st Michel period)		
(P) - Timely submission of the corrective action plans for this period		
- Access by State staff responsible for corrective action to top management		
- Acquisition by top management of additional resources, as identified in CAP (e.g. computer time, additional staffing)		
- Other indicators as presented by the State		
2. Demonstrated management accountability for the corrective action process	30	25
(P) - Accountability for decisions in the corrective action process		
(P) - Quality control and corrective action responsibilities delegated or assigned to appropriate level of managers or management components		
- Performance standards for managers reflective of their accountability for error reduction		
- Other indicators presented by the State		

(P) Primary

3. Initiatives (not specifically addressed by other elements) undertaken by the State to improve the corrective action process - Manual/automated systems which will address error concentrations but which are not operational during the period, but are under development during the period - Comprehensive training activities - Changes in case management aimed at improving the corrective action process - Reorganization of agency or components - Policy or procedure manual revisions designed to reduce errors - Legislation enacted which is responsive to State problems in corrective action - Other indicators presented by the State	20	20

	MAXIMUM VALUE	Scores
B. Sufficiency and Quality of Systems Designed to Reduce Errors (45 CFR 205.42(g)(2)(v)(B))	100	98
1. Use of Data (P) - Use of available source data (e.g. BENDEX,IDEX, Motor Vehicle Match), as appropriate - Other indicators presented by the State	20	18
2. Sufficiency and quality of manual/automated systems to reduce errors based on needs indicated by program analysis (P) - Systems resources (e.g. staff time, hardware) accessible to individuals responsible for corrective actions - Systems in place evaluated as potential corrective action tool (e.g. management information systems) - Consideration of alternatives to current system (e.g. assignment of support law, enumeration agreement) - Other indicators presented by the State (e.g. monthly reporting, retrospective budgeting, local agency monitoring systems)	45	45
3. System Utilization (P) - Systems output/results sent to responsible official (e.g. reports, tapes) - Output results related to corrective action utilized by responsible staff - Training in use of output provided to users Other indicators presented by the State	35	35

(P) Primary

	MAXIMUM VALUE	Scores
C. Use of Systems and Procedures for Statistical and Program Analysis of QC and Related Data (45 CFR 205.42(g)(2)(v)(C))	100	97
1. QC Data Submission Required QC Forms submitted complete and timely (Form SSA 4341, Tables 1, 2, 3, 3A, and 4 or equivalent)	20	17
2. Statistical Analysis (P) - Analysis of State QC Sample by Error Elements (P) - Analysis of Federal rereview findings - Trend analysis - Nature/sources of errors - Geographic breakdown - Error prone profiles - Statistical Tests/Significance of Errors - Special Studies - Interim Reports - Augmented Samples - Targeted Studies - Other indicators presented by the State	35	35
3. Description of Data Narrative explanation of QC data analysis as transmitted to those responsible for program analysis	10	10
4. Program Analysis Analysis of program operations to determine cause of QC errors	35	35

(P) Primary

	MAXIMUM VALUE	Scores
D. Management and Execution of Corrective Action Process (45 CFR 205.42(g)(2)(v)(D))	100	88
1. Assessment of Corrective Actions (P) - Corrective actions developed for all error elements which represent a significant percentage of the payment error rate with a connection between corrective actions selected and errors - Other indicators presented by the State	15	15
2. Corrective Action Planning (P) - Establishment of milestones (P) - Allocation of resources - Assessment of costs and benefits - Pilot projects - Involvement of county or local agency staff, as appropriate - Other indicators presented by the State	25	20
3. Implementation of Corrective Action Plan (P) - Implementation monitoring (P) - Achievement of milestones/implementation of corrective action tasks - Ongoing process for amending or discontinuing of corrective actions, as necessary - Other indicators presented by the State	45	45
4. Evaluation of Corrective Actions and Their Implementation Actions evaluated based on reported error reduction, actual costs and benefits, and related indirect outcomes	15	8

(P) Primary

Weighting

Factor A subscore 90 x .30 = 27.00
B 98 x .20 = 19.60
C 97 x .25 = 24.25
D 88 x .25 = 22.00

Score = 92.85

Notes

1. (P) denotes a "primary" indicator of an element (see covering letter for specific information regarding these indicators).

2. Several elements do not have separate indicators listed. The documentation supporting the waiver request must fully address an element without indicators before the maximum points for that element can be assigned.

Item #3

Question:

Please supply the raw scores of each State which resulted from the application of the weights and factors.

Answer:

The following scores represent our evaluation of State waiver requests. In each of these cases, the State filed a waiver request based on the assertion that it timely developed and implemented a corrective action plan reasonably designed to meet the target error rate. These scores result from the application of the weights and factors.

STATE	SCORE
Alabama	67.5
Arizona	81.3
California	70.2
Colorado	80.0
Connecticut	72.3
Florida	90.1
Hawaii	73.6
Idaho	84.0
Indiana	63.0
Kansas	77.7
Maine	57.4
Maryland	81.5
Minnesota	68.6
Nebraska	57.8
New Jersey	83.6
New Mexico	77.1
New York	61.6
Ohio	68.3
Oklahoma	75.0
South Carolina	87.5
South Dakota	67.8
Tennessee	83.8
Texas	71.6
Utah	93.6
Vermont	87.7
Washington	49.5
Wyoming	92.8

Item #4

Question:

Please submit any legal opinions written during discussions between HHS, OMB and Justice on the 1981 AFDC waiver requests.

Answer:

Response transmitted by separate letter to Subcommittee Chairman Ford.

DEPARTMENT OF HEALTH & HUMAN SERVICES
Office of the Secretary
Washington, D.C. 20201

June 12, 1985

The Honorable Harold Ford
Chairman, Subcommittee on Public Assistance
and Unemployment Compensation
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear ~~Mr. Ford~~ Harold:

At the hearing on April 25, 1985, and in your letter of May 13, 1985, requests were made for legal opinions written during discussions between HHS, OMB, and the Justice Department on the 1981 AFDC waiver requests.

No formal legal opinions were prepared by HHS or furnished to HHS by OMB or the Justice Department. Rather, the evaluation of options under consideration was made orally among lawyers for the three agencies. A draft analysis of certain litigation risks was, however, furnished to the Justice Department and OMB, and a copy is enclosed for the use of the Committee.

If the enclosed analysis were sought by the public or by opposing parties in litigation, it would be subject to attorney-client and attorney work product privileges and would not be disclosable. In view of this, we request that the document be kept confidential by the Committee and not be publicly disclosed.

Sincerely,

Lawrence J. DeNardis
Acting Assistant Secretary
for Legislation

Enclosure

The regulations implementing the Michel Amendment provisions on disallowance of certain AFDC and Medicaid costs, based on a sampling of the state's error rate, allow part or all of the disallowance to be waived for various reasons pursuant to the statutory authorization for a waiver where the state has failed to meet its target error rate despite a "good faith effort." Among the grounds specified in the regulations for a waiver is the submission of a corrective action plan meeting certain criteria. Plans submitted by states are evaluated and scored, and waivers are granted to those with the highest scores. The corrective action plan scores correlate imperfectly with the states' performance in nearing their target rates; thus, for example, Wyoming had an excellent score on its corrective action plan but fell far short of its target error rate during the first year. It has been suggested that this imperfect correlation invalidates the corrective action plan as a basis for waivers and that, consequently, no waivers should be granted at all. This memorandum examines that concern and concludes that the imperfect correlation does not pose a risk to the validity of the corrective action plan criteria and would not warrant abandoning the approach, which is presently set forth in the regulations.

Risk of Invalidation

There are three possible ways in which the imperfect correlation might be said to vitiate corrective action plans as a basis for waivers. First, it might be argued that awarding a waiver to a state that missed its target rate by a wide margin is inconsistent with the statutory requirement that waivers be based on "good faith effort." Second, it could be argued that the imperfect correlation demonstrates that the criteria stated in the regulations do not successfully capture good faith effort. Third, one might contend that the scoring system implementing the regulations is defective, as evidenced by the imperfect correlation.

The first argument can be easily dismissed. There is nothing in the concept of good faith effort that necessarily requires a high correlation between effort and success. Certainly, a poor degree of success draws into question the value of the effort mounted, but it is clearly possible to make a "good faith effort" that does not succeed or even come close to success. While it is true that in individual cases a state achieving a lower error rate may have in fact demonstrated a greater "good faith effort," neither the statute mandates, nor common experience dictates, that effort and success are tied together. Under the Michel Amendment, states are only considered for a waiver when they have failed to meet the target error rate and if their failure occurs "despite a good faith effort." In continuing this good faith effort standard in TEFRA, Congress explicitly did so in recognition of "the limitations on what it is possible to accomplish even with a good faith effort aimed at full compliance." S.Rep. No. 97-494, 97th Cong., 2nd Sess. at 81 (1982). If success were the benchmark against which effort was required to be measured, there would have been no need for waivers. States that met the target error rate would be the only ones logically exhibiting the requisite amount of good faith effort. Therefore, the statute necessarily focuses more on the nature or degree of the state's effort than on some measure of success or proximity to the target error rate.

Even though its "good faith effort" will allow a state to achieve a lower error rate than it would have without making such effort, the actual error rate may often reflect the effect of other factors that have a direct bearing on reducing errors. For example, if the state's error cases are concentrated in one particular county, it is much easier for the state to eliminate the cause of those errors than if the error cases occur throughout the state. Similarly, whether errors are agency or client caused also has a direct impact on the state's success in remedying them, since client caused errors are much more difficult to eliminate due to the lack of control over the recipient. Thus, in light of the different circumstances confronted by each state, it is expected that results may differ markedly from state to state even though effort may be the same, or that one state's situation allows great improvement with little effort, while another's problems are intractable in spite of great effort. Hence, there is no statutory violation simply because waivers are granted to states with excellent effort but poor result.

The next level of argument considers whether the Department's criteria in the regulations for judging corrective action plans in fact measure good faith effort. Thus, one could concede that effort need not be closely correlated with result but conclude that the criteria are measuring something other than effort, since, the argument would go, if the criteria did measure good faith effort, we would see a better correlation between effort and result. This argument is not objectively answerable since there is no way of determining what degree of effort should result in what degree of success. Once we accept the conclusion that good faith effort can result in failure, there is no objective way to determine whether our evaluation system is measuring good faith effort that results in limited success or something other than good faith effort. The Department's experts believe that the criteria stated in the regulations do successfully measure good faith effort to achieve error rate reduction, and a court would be hard-pressed to determine, based simply on a poor correlation with performance, that the criteria do not measure what they purport to.

Finally, if one concedes that the criteria in the regulations are satisfactory as indications of good faith effort, then the argument must focus on their implementation, i.e., the evaluation and scoring of corrective action plans. Here, the argument would be that the poor correlation between scores and performance demonstrates the invalidity of the scoring methodology. The outcome of a legal inquiry into the adequacy of the scoring system as a measure of success in meeting the criteria in the regulations would probably depend on expert opinion and possibly on empirical manipulation of the data. For example, if an outside expert took the position that the management factor should receive greater weight than the Department gave it, and if the correlation between effort and result dramatically improved when re-weighted in accordance with the expert's instructions, a court could conceivably conclude that the scoring system should be revised. In the absence of some such demonstration, however, it seems unlikely that the mere fact of an imperfect correlation would persuade a court that a new scoring system was necessary to implement the criteria in the regulations.

In summary, the imperfect correlation between corrective action plan scores and nearness to the target error rates by itself does not create a substantial risk that the corrective action plan criteria will be invalidated.

The Correlation as a Basis for Change

For the same reasons that the imperfect correlation should not result in judicial invalidation of the corrective action plan criteria, it would not seem possible to rely on the correlation as a basis for the Department's abandoning the corrective action plan criteria in deciding 1981 waivers. If we wanted to attempt this approach, we could not use the first or third arguments stated above, since a statutory violation argument cannot reasonably be made and a defective scoring system would imply the need only for re-scoring, not abandoning the whole approach. Thus, the only possible rationale would be to conclude that the criteria stated in the regulations for evaluating corrective action plans are unreasonable as demonstrated by the correlation between plan quality and error rate reduction. This would be an extremely hazardous approach, since there is probably a great deal of Departmental correspondence, testimony before Congress, and other public statements suggesting the value of corrective action plans. To assert now, without the benefit of notice-and-comment rulemaking, that, in effect, we no longer know what constitutes an appropriate corrective action plan would invite serious legal challenge.

Comparative Litigation Risks

Even if we were to assume that the correlation between plan scores and performance posed a litigation risk, that risk would have to be compared to the risks of changing the system. The risk stemming from the imperfect correlation, if present at all, is quite low because the logical remedies resulting from a successful challenge would probably not be useful to the litigating states.

A state that did not obtain a waiver could not simply point to the correlation and argue from that fact that it deserved a waiver. The only relief it could logically seek would be invalidation of the criteria for evaluating corrective action plans. States, however, are not likely to benefit from a court decision invalidating the criteria. Invalidation could not directly result in judicial substitution of different criteria for evaluating corrective action plans but at most a remand to the Department for additional action consistent with the court's decision. Upon remand, the Department could presumably decide against the entire corrective action plan approach, unless otherwise constrained by the court. A state would ultimately benefit only if it could invalidate the current criteria, secure a holding that waivers must be allowed for corrective action plan efforts, and obtain new criteria that would benefit the state more than the current criteria. Absent all of these results, there is no benefit to a state, except possibly delay, from seeking to invalidate the corrective action plan criteria on the basis of the imperfect correlation. Thus, this is not likely to be a primary state strategy nor a particularly important litigation risk.

By contrast, the litigation risk would be high if there is a remedy clearly beneficial to the states that will result if a particular line of argument prevails. Accordingly, we can expect serious challenge to the amount of the basic disallowance, since states will be seeking to lower the amounts. Similarly, there may be an attempt to argue that the cut-off score for corrective action plan waivers should be lower, or that particular plans should be scored higher, since in those cases qualification for a waiver would clearly be at issue.

These considerations illustrate the risks of modifying the evaluation criteria in any manner that poses the risk of procedural error. For example, if we were to grant waivers to plans with a score of 85 for states that came with 10 percent of their target rates, there would be a substantial incentive for states with scores of 85, but outside the 10-percent cut-off, to challenge use of the cut-off. Any substitution of new criteria for the existing criteria would create a clear remedy for states to seek, if they believe they would achieve a better outcome under the previous criteria. This is a situation of much more concern than a general challenge to the waiver criteria, for which success would bring no clear relief to the states.

In short, since the imperfect correlation between effort and results (1) is defensible and (2) is not likely to be a major point of the litigation in any event, it would not be prudent to revise the waiver criteria in an effort to deal with the issue. Such action would only create the specter of procedural error and invite states to argue that the Department should be required to use the current criteria, rather than whatever the new criteria would be. If a court were to invalidate new criteria and compel us to use the present standards, it might be much more difficult to reach the desired result of limited waivers since at that point the court might perceive restrictive standards as an attempt to thwart its decision.

Item #5

In your testimony, you indicated that in addition to evaluating State waiver requests based on the established good faith waiver review criteria (45 CFR 205.42(g)(2)(v)), the Department also took into account the progress made by States in meeting their error rate targets. Based on the failure to achieve adequate progress, 5 of the 11 States that the Department determined met the good faith waiver review criteria (i.e., scored above "80" on the weights and factors) were denied waivers. Neither the statute nor the regulations indicate that error rate progress will be a criterion used to evaluate whether a State will receive a waiver.

Question:

- On what authority did the Department establish this as a criterion and how was it applied?

Answer:

The "Michel Amendment" requires the Secretary to disallow erroneous payments in excess of the established targets, "except where the Secretary determines, in certain limited cases, that States are unable to reach the required reduction in a given year despite a good faith effort."

Each State that requested a waiver on the basis of circumstances exemplified in the regulations at 45 CFR 205.42(g)(v), (i.e., having timely developed and implemented a corrective action plan reasonably designed to meet the target error rate) had their waiver requests carefully evaluated and scored based on the criteria published in subparagraphs (A) through (D) of that regulation.

In evaluating the States good faith efforts the Department applied published weights and factors to arrive at a score, on a scale of 0 to 100, for each State. The Department established 80 as a minimum score, below which a State would not be eligible to receive a waiver. Eleven States, 40% of those applying, met this test (i.e., scored 80 or above). The 80 cutoff score was established in furtherance of congressional intent that Secretarial waivers be limited in number and granted only under truly extraordinary circumstances.

Those States that had scored 80 or above were considered to have established, on the basis of a "paper" evaluation, their "good faith" corrective action effort. However, the Secretary determined that it would be inappropriate to grant a waiver to a State whose actual error reduction performance contradicted the "good faith" effort implied by a score of at least 80.

In order to compare a State's actual performance to its written report of corrective action efforts, two available indicators of the State's actual performance were examined. The indicators were the amount by which a State's FY 81 actual error rate exceeded its FY 81 target error rate and the actual error rate reduction from FY 80 to FY 81 or, more importantly, whether the State's error rate increased in FY 81.

On the basis of these two performance measures, the Department determined that 5 of the 11 States that had scores of at least 80 on the evaluation of their corrective action efforts should not receive waivers. The five States and the reason for their exclusion follow:

- Wyoming received a score of 92.8 but was denied a waiver because its FY 81 error rate was 342.5% of its target.
- Florida received a score of 90.1 but was denied a waiver because its FY 81 error rate was 154.9% of its target and its error rate rose from 6.1% in FY 80 to 7.9% in FY 81, an increase of 29.5%.
- Idaho received a score of 84.0 but was denied a waiver because its FY 81 error rate was 211.6% of its target.
- Tennessee received a score of 83.8 but was denied a waiver because its FY 81 error rate was 148.3% of its target and its error rate rose from 7.0% in FY 80 to 8.9% in FY 81, an increase of 27.1%.
- Colorado received a score of 80.0 but was denied a waiver because its FY 81 error rate was 195.2% of its target.

The remaining six States received waivers. These States all had actual FY 81 error rates that were significantly closer to their target error rates than the excluded States. In addition, all showed either a decrease or only a very slight increase in their error rates from FY 80 to FY 81. The States that were granted waivers had nothing in their actual performance indicators to contradict the necessary extraordinary "good faith" effort implied by their high corrective action evaluation scores.

The following chart compares the States which were granted waivers with those which scored at least 80 but were excluded.

	SCORE	FY 81 ERROR RATE AS % OF TARGET	FY 80 ERROR RATE	FY 81 ERROR RATE
WAIVER GRANTED				
Arizona	81.3	123.9	8.7	8.3
Maryland	81.5	111.5	12.7	11.6
New Jersey	83.6	106.7	10.4	8.0
South Carolina	87.5	127.9	7.3	7.8
Utah	93.6	122.5	7.1	4.9
Vermont	87.7	120.9	11.4	5.2
WAIVER DENIED				
Colorado	80.0	195.2	11.6	8.2
Florida	90.1	154.9	6.1	7.9
Idaho	84.0	211.6	8.9	9.1
Tennessee	83.8	148.3	7.0	8.9
Wyoming	92.8	342.5	13.8	13.7

Question:

- Since States requesting waivers are already known to have failed to meet their error rate target, doesn't your use of this kind of progress requirement when evaluating waivers mean States are penalized twice for failure to meet the target? In practice it appears States must request waivers because they do not meet the target and may not get a waiver because they did not meet the target or exceeded the target by too much. This can happen even though according to the Department's own analysis, the State had made a good faith effort to reduce errors.

Answer:

We fail to see where States were penalized twice. All States that failed to meet their targets were afforded an opportunity to request a waiver. As explained above, while the score may imply that the State made a good faith effort, the Secretary concluded that a waiver would not be appropriate if there were other evidence that in fact there was not adequate good faith effort. Not only must a State achieve a high score (at least 80) on the evaluation of those efforts but also the State's actual performance must not belie that evaluation.

Item #6

In your testimony, you indicated that the direction of a State's error rate between 1980 and 1981 was considered when you determined which of the 11 States would receive waivers.

Question:

o Were waivers granted to any States in which error rates increased between 1980 and 1981?

Answer:

South Carolina was granted a waiver even though its error rate increased from 7.3% to 7.8% between 1980 and 1981. An increase of one-half of one percent, by itself, was not regarded as significant enough to disqualify the State.

Question:

o Were waivers denied to any States that reduced their error rate between 1980 and 1981 and also had a 1981 error rate that was lower than those of States that received a waiver?

Answer:

Colorado, South Dakota, Indiana, New York and Texas reduced their error rates between 1980 and 1981 and also had error rates that were lower than those of States which received a waiver. However, with the exception of Colorado these States were denied waivers because they scored below 80 on the evaluation of their corrective action efforts. Colorado, which received a score of 80 on its correction action efforts, was denied a waiver because its FY'81 error rate (8.2%) was 195.2% of its target (4.2%).

Question:

o For each of the 28 States, please submit your calculation of the percent by which the error rate target was exceeded and the 1980 error rate used to determine progress between 1980 and 1981.

Answer:

For each of the 28 States submitting waiver requests, the percentage by which they exceeded their FY 81 error rate target and their actual FY 80 error rate are shown on the following chart.

	FY 1981 ERROR RATE AS % OF TARGET	FY 1980 ERROR RATE
Alabama	101.3	7.1
Arizona	123.9	8.7
California	170.0	5.7
Colorado	195.2	11.6
Connecticut	104.2	6.2
Florida	154.9	6.1
Hawaii	134.7	9.0
Idaho	211.6	9.0
Indiana	102.5	4.5
Kansas	197.6	5.8
Maine	105.3	6.6
Maryland	111.5	12.7
Minnesota	110.0	3.3
Nebraska	125.0	4.9
New Jersey	106.7	10.4
New Mexico	275.6	7.3
New York	111.1	8.3
Ohio	115.6	8.7
Oklahoma	165.0	4.4
Puerto Rico	134.8	7.6
South Carolina	127.9	7.3
South Dakota	102.2	5.2
Tennessee	148.3	7.0
Texas	127.1	7.6
Utah	122.5	7.1
Vermont	120.9	11.4
Washington	160.3	9.0
Wyoming	342.5	13.8

Item #7

Question:

There seems to be some confusion with regard to how the Department is defining "extraordinary circumstance." In your testimony you made a distinction between waivers based on extraordinary circumstances--meaning circumstances beyond the control of the State such as disasters, strikes, workload changes and incorrect Federal policy interpretations--and circumstances within the control of the State--meaning corrective action. In fact, you indicated that separate review criteria were applied (those for extraordinary circumstances are noted on page 4 of your statement) and that none of the 20 States citing extraordinary circumstances, based on the first four factors cited above, qualified for a waiver on these grounds. Waivers requested on the basis of corrective action were reviewed using four difference factors (noted on page 6 of your statement). You did not tell States that you would also apply the "extraordinary circumstances" test to waivers based on corrective action.

However, at the hearing you indicated that your discussions with OMB led to a decision to limit the number of States receiving waivers based on good faith corrective action efforts to a small number of States because you concluded that waivers should only be granted in extraordinary circumstances. Please clarify the inconsistency here.

Answer:

The States were told by regulation that all waivers would be limited to extraordinary circumstances. The Department's regulation at 45 CFR 205.42(g)(1) provides that a waiver will only be available if the Department finds that, "the State did not meet the . . . target error rate despite a good faith effort." That regulation further limits all waivers to extraordinary circumstances by providing that "A finding that a State did not meet the target error rate despite a good faith effort will be limited to extraordinary circumstances." The regulations in the next paragraph (205.42(g)(2)) provide five examples of circumstances under which the Department might find that a State did not meet the target error rate despite a good faith effort. The first four, disasters, strikes, sudden workload changes, and incorrect Federal policy interpretations (205.42(g)(2)(i)-(iv)), are examples of extraordinary circumstances generally regarded as being beyond the control of the State. The fifth example, timely developed and implemented corrective action efforts (205.42(g)(2)(v)), is also considered an extraordinary circumstance if, based on the evaluation criteria spelled out in regulation, the Department determined the State in fact made a good faith effort in this area.

One of the major issues the Secretary faced in the waiver decision-making process was how to define "extraordinary circumstances" in the context of corrective action efforts. The issue was a major topic of discussions between the Office of Family Assistance and the Department and among the Department, OMB and Justice. The Department concluded that it would be inappropriate, given the Michel Amendment and its implementing regulations, to grant waivers to all of the States that applied on the basis of corrective action efforts. To give meaning to "extraordinary circumstances" the Department limited waivers to those States that were able to demonstrate that they applied outstanding or extraordinary levels of effort to their corrective action process.

Item #8

It is clear that attorneys from both HHS and OMB were involved in the waiver decision process.

Question:

- Do you think it is appropriate for attorneys (or senior level staff members of the Department) to determine how specific scores should be translated into waiver decisions without ever having actually reviewed the State submittal?

Answer:

Attorneys from HHS, OMB and the Department of Justice, as well as senior officials from several staff components within the Department provided input into the Secretary's decision-making process. That process raised legal and policy issues that were properly addressed by those participants. The Secretary, members of her senior staff and the attorneys reviewed the evaluation criteria and methodology as well as the actual evaluation results. Once they were satisfied as to the validity of the evaluation process and accepted the scores, they had no need to actually review the State waiver requests.

Question:

- How can such officials decide that any State with a score above "80" meets the definition of extraordinary circumstances and should qualify for a waiver without knowing specifically what such a score means?

Answer:

The Secretary, and those having input into her decision, reviewed the thoroughness of the waiver evaluation criteria and the methodology that was applied. She was satisfied that the criteria and methodology were sound and equitable, and determined that a score of at least 80 represented an extraordinary effort on the part of a State.

Item #9

Question:

Did HHS consult with the Food and Nutrition Service in the Department of Agriculture to assure that comparable methodologies were used in the food stamp and AFDC waiver processes? In what way does the AFDC process differ from the food stamp process? Were the waiver decisions consistent (i.e., did State receiving a 1981 waiver on the food stamp side also receive an AFDC waiver)?

Answer:

While the Secretary of HHS has no control over programs in the Department of Agriculture, we did confer with the Food and Nutrition Service (FNS) prior to developing our waiver process. However, we found enough differences in their program goals, error targets, waiver concepts and criteria, as well as the fact that the recipient benefits are fully Federally funded, that similar processes were inappropriate. Since the FNS program had fewer States liable for a disallowance (14), the structure of their waiver process was less formal. Within HHS we did confer with the Health Care Financing Administration and given the similiarities in the Medicaid program and its administration, we were able to develop comparable waiver processes.

While States requesting waivers under each program varied, Maryland is the only State that received waivers in both the AFDC and Food Stamp programs.

Item #10

Question:

Please provide for fiscal year 1981, a chart which depicts the payment error rates for all States and what these rates would have been had technical errors been excluded from the official rate. Compare the adjusted error rates (official error rate minus technical errors) to the State targets for this period and show the number of States targets for this period and show the number of States subject to fiscal penalties and the potential disallowance amounts using the adjusted error rate.

(Technical errors are defined as those errors that result because certain procedural requirements were not met: providing a social security number, assignment of child support rights and cooperation in obtaining support, WIN registration, and providing monthly reports on circumstances affecting eligibility or payment.)

Answer:

First, we would like to point out that these "technical" errors are not simply procedural requirements, but involve basic statutory conditions of eligibility. In fact, these conditions were placed in the statute because they can have a substantial effect on eligibility or payment amount. For example: if the State had documented a social security number, a bank or wage match might have uncovered excess resources or earnings; or if the State had worked with the recipient to obtain child support, the absent parent might have been located and ordered to support the family. Thus, these requirements are central to the proper administration of the AFDC program and a necessary element of any meaningful Quality Control (QC) review. These conditions are subject to QC review to determine whether the case was legally entitled to receive assistance and, hence, whether Federal matching is allowable. Further, QC data show that compliance with these requirements are within the control of the State agencies and, in fact, compliance is almost totally achievable through appropriate management attention.

The data you requested is shown in the following chart.

AFDC QUALITY CONTROL

PAYMENT ERROR RATES, TARGET ERROR RATES, AND POTENTIAL DISALLOWANCE AMOUNTS BASED ON EXCLUDING TECHNICAL ERRORS

FY 1981

	PAYMENT ERROR RATE			POTENTIAL DISALLOWANCE AMOUNT (000)
	OFFICIAL	EXCLUDING TECHNICAL ERRORS	TARGET RATE	
U.S. TOTAL......	7.6	6.5	*	35,630
ALABAMA.........	7.7	5.6	7.6	--
ALASKA..........	10.2	10.1	22.1	--
ARIZONA.........	8.3	7.6	6.7	118
ARKANSAS........	6.8	6.2	7.4	--
CALIFORNIA......	6.8	5.6	4.0	20,419
COLORADO........	8.2	4.9	4.2	305
CONNECTICUT.....	7.4	6.9	7.1	--
DELAWARE........	11.3	7.1	12.0	--
DIST. OF COL....	13.6	10.7	16.3	--
FLORIDA.........	7.9	7.2	5.1	2,541
GEORGIA.........	6.5	6.0	6.5	--
HAWAII..........	10.1	8.2	7.5	348
IDAHO...........	9.1	8.3	4.3	582
ILLINOIS........	8.3	8.0	10.7	--
INDIANA.........	4.1	3.7	4.0	--
IOWA............	4.3	3.6	6.5	--
KANSAS..........	8.1	7.7	4.1	1,727
KENTUCKY........	5.0	4.3	8.1	--
LOUISIANA.......	6.7	5.8	8.7	--
MAINE...........	7.9	6.6	7.5	--
MARYLAND........	11.6	10.4	10.4	45
MASSACHUSETTS...	9.3	8.4	11.9	--
MICHIGAN........	7.3	6.7	7.5	--
MINNESOTA.......	4.4	4.2	4.0	273
MISSISSIPPI.....	6.9	6.5	9.0	--
MISSOURI........	7.1	6.2	8.1	--
MONTANA.........	4.9	4.3	7.0	--
NEBRASKA........	5.5	4.0	4.4	--
NEVADA..........	2.3	2.3	4.0	--
NEW HAMPSHIRE...	6.6	6.2	8.7	--
NEW JERSEY......	8.0	5.2	7.5	--
NEW MEXICO......	12.4	10.9	4.5	2,087
NEW YORK........	8.0	7.1	7.2	--
NORTH CAROLINA..	5.4	4.9	6.6	--
NORTH DAKOTA....	3.1	2.5	4.0	--
OHIO............	8.9	8.0	7.7	928
OKLAHOMA........	6.6	6.0	4.0	1,145
OREGON..........	6.8	6.4	9.0	--
PENNSYLVANIA....	9.0	7.0	12.2	--
PUERTO RICO.....	8.9	7.8	6.6	894
RHODE ISLAND....	6.3	4.0	9.8	--
SOUTH CAROLINA..	7.8	5.4	6.1	--
SOUTH DAKOTA....	4.6	3.7	4.5	--
TENNESSEE.......	8.9	6.7	6.0	417
TEXAS...........	7.5	6.5	5.9	417
UTAH............	4.9	4.1	4.0	43
VERMONT.........	5.2	4.7	4.3	102
VIRGIN ISLANDS..	6.9	6.2	11.2	--
VIRGINIA........	3.6	3.1	9.1	--
WASHINGTON......	9.3	8.4	5.0	3,059
WEST VIRGINIA...	7.4	5.7	8.9	--
WISCONSIN.......	8.2	6.0	8.7	--
WYOMING.........	13.7	8.3	4.0	180

* WEIGHTED; EACH 6-MONTH ERROR RATE IS WEIGHTED BY THE PERCENTAGE OF TOTAL ANNUAL PAYMENTS THAT WAS EXPENDED IN THAT PERIOD.

Item #11

Question:

What percentage of the national payment error rate of 7.7 percent in fiscal year 1981 is attributed to technical errors? Of this percentage, what is the percentage of technical errors that would actually have made a difference in the payment amount (For example, how often does the SSN lead to disclosure of unreported income)?

Answer:

The fiscal year 1981 national payment error rate is 7.6 percent. The payment error rate attributed to "technical" errors is 1.1 percent. Therefore, the percentage of the fiscal year 1981 payment error rate attributed to "technical" errors is 14.5 percent. We do not have sufficient data to determine the percentage of "technical" errors that would actually have made a difference in the payment amount.

Item #12

Question:

For fiscal year 1981, please provide a breakdown of each State's payment error rate and the percentage of errors attributed to earnings.

Answer:

Requested data is displayed in the following table.

AFDC QUALITY CONTROL

Fiscal Year 1981 Payment Error Rates and Earned Income Payments in Error as a Percentage of Total Payment in Error

State	Payment Error Rate	Earned Income Payment Errors as a Percentage of Total Payment Errors
U. S. Total	7.6	21.6
Alabama	7.7	33.7
Alaska	18.2	20.7
Arizona	8.3	26.4
Arkansas	6.8	32.8
California	6.8	18.6
Colorado	8.2	27.0
Connecticut	7.4	19.9
Delaware	11.3	12.2
Dist. of Col.	13.6	36.3
Florida	7.9	33.6
Georgia	6.5	48.0
Hawaii	10.1	19.9
Idaho	9.1	8.7
Illinois	8.3	22.0
Indiana	4.1	34.2
Iowa	4.3	31.8
Kansas	8.1	31.8
Kentucky	5.0	19.3
Louisiana	6.7	32.4
Maine	7.9	19.8
Maryland	11.6	36.3
Massachusetts	9.3	19.0
Michigan	7.3	18.3
Minnesota	4.4	19.5
Mississippi	6.9	44.9
Missouri	7.1	33.7
Montana	4.9	19.1
Nebraska	5.5	33.5
Nevada	2.3	37.3
New Hampshire	6.6	22.1
New Jersey	8.0	27.4
New Mexico	12.4	29.3
New York	8.0	15.4
North Carolina	5.4	33.0
North Dakota	3.1	42.0
Ohio	8.9	18.5
Oklahoma	6.6	40.5
Oregon	6.8	19.8
Pennsylvania	9.0	15.5
Puerto Rico	8.9	15.5
Rhode Island	6.3	13.4
South Carolina	7.8	27.0
South Dakota	4.6	25.1
Tennessee	8.9	38.0
Texas	7.5	39.5
Utah	4.9	6.3
Vermont	5.2	41.1
Virgin Islands	6.9	-0-
Virginia	3.6	35.5
Washington	9.3	11.6
West Virginia	7.4	10.7
Wisconsin	8.2	13.9
Wyoming	13.7	27.9

Item #13

Question:

For fiscal year 1981, please identify the percentage of the national payment error rate that represents errors in two-parent households. Also provide a state-by-state breakdown.

Answer:

The error rate data needed to address this request was not collected at the national level for fiscal year 1981. We do know that only 251,000 families (of the 3.7 million families) had two adults (not necessarily parents) as recipients in the household. While we are not able to relate the two-parent households directly to the error rate for fiscal year 1981, this data will be available for fiscal year 1983 and thereafter.

Item #14

Question:

When the official payment error rates have been completed for fiscal year 1982 and fiscal year 1983, please provide responses to questions 10-13 above for these years as well.

Answer:

This information will be provided when it is available.

Item #15

Question:

Please identify the number of technology transfers that have been arranged by the Department to assist States with error reduction techniques for each fiscal year from 1981 through 1984, the States that took part in those transfers, the purpose, results and approximate costs.

Answer:

FISCAL YEAR 1981

Number of Technology Transfers - 39

Approximate Costs - $60,500

Primary Focus - General Management Improvement Techniques and Monthly Reporting/Retrospective Budgeting

Participating States

Arizona
California
Connecticut
Florida
Georgia
Hawaii
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
New Jersey
New Mexico
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Washington
West Virginia
Wisconsin

Results - The majority of States adopted some practices or modification of them to suit their own processes.

FISCAL YEAR 1982

Number of Technology Transfers - 71

Approximate Costs - $51,900

Primary Focus - Error Reduction, Fraud and Abuse Prevention, Recovery of Overpayments and Monthly Reporting

Participating States

Alabama
Arkansas
California
Connecticut
Georgia
Illinois
Iowa
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
New Hampshire
New Jersey
New Mexico
New York
Oklahoma
Oregon
Rhode Island
South Carolina
Texas
Utah
Vermont
Washington

Results - The States were assisted in implementation of procedures associated with major Federal statutory/regulatory changes and in coming closer to meeting their quality control target error rates for the year.

FISCAL YEAR 1983

Number of Technology Transfers - 115

Approximate Costs - $68,700

Primary Focus - Error Reduction Techniques and Work Programs

Participating States

Alabama
Alaska
Arkansas
Arizona
California
Colorado
Delaware
District of Columbia
Florida
Georgia
Guam
Hawaii
Idaho
Illinois
Iowa
Kansas
Kentucky
Louisiana
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Nebraska
New Hampshire
New Jersey
New Mexico
New York
Nevada
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
Texas
Utah
Washington
West Virginia

Results - The majority of States adopted some practices or modification of them to suit their own processes.

FISCAL YEAR 1984

Number of Technology Transfers - 195

Approximate Costs - $133,349

Primary Focus - Error Reduction Techniques and Work Programs

Participating States

Alaska
Arizona
Arkansas
California
Connecticut
Delaware
District of Columbia
Florida
Georgia
Hawaii
Idaho
Illinois
Indiana
Iowa
Kentucky
Louisiana
Maine
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
New Jersey
Nevada
North Carolina
North Dakota
New Mexico
New York
Ohio
Oklahoma
Oregon
Pennsylvania
South Carolina
Tennessee
Texas
Utah
Vermont
Virginia
Virgin Islands

Results - The majority of States adopted some practices or modification of them to suit their own processes.

Item #16

Question:

What other Federal technical assistance efforts involving direct contact with State officials, such as the West Virginia effort you cited in your testimony last year, have taken place? Please provide a list and summary of each such action taken in fiscal years 1981 through 1984.

Answer:

The Office of Family Assistance (OFA) staff are involved in providing a variety of forms of direct technical assistance (TA) to State officials. Our Regional Office staff are involved on a daily basis to help States improve program operations. The kind of TA offered is carefully designed to meet State-specific needs and therefore can take several forms.

One form of ongoing effort is represented by the West Virginia project. This was a large-scale approach to focus attention on an emerging error rate problem. The results were dramatic. This type of in-depth error analysis and corrective action strategy has been replicated elsewhere including Pennsylvania and Arizona. Such an approach will continue to be used as appropriate.

Another type of TA provided by OFA regional staff is through the conduct of program reviews. These reviews determine the effectiveness and efficiency of operations, and compliance with statute. Findings and recommendations of these studies are used by States to lower errors and improve general operations.

Our Regional staff are also actively involved with State officials at appropriate points in State corrective action planning procedures. We are asked for our advice in redesigning practices; and we share information about successful experiences from other States.

Since the basic business of the Federal government in the Federal-State partnership is guidance, support, assistance and review, the activities about which you ask are a large part of OFA's daily activity and mission. Thus, the "direct Federal assistance provided" is given in countless instances regularly. For example, over the past few years OFA has provided extensive help to States in implementing monthly reporting and IV-A work programs. These technical assistance efforts were conducted countless times by both Central and Regional Office staff. In one Central Office component alone, problem-solving sessions (a combination of conference calls and direct visits to States) with officials from 42 States on monthly reporting operational issues took place on numerous occasions over a 3 1/2 year period. In the area of work program implementation, very intensive and focused technical consultation took place between OFA and the States. As a result of these technical assistance efforts, there are currently 24 States with WIN Demonstration authority, 22 States with Community Work Experience programs, 11 States with IV-A Job Search programs and 12 States with Work Supplementation/ Grant Diversion programs.

In addition, OFA's Central Office and Regional Office staff worked with State officials on approximately 400 technology transfers conducted from 1981 through 1984 to analyze the need, identify the correct technical expert to help a State solve an operational problem, and pay for the transfer. OFA staff also prepared TA packages on a variety of subjects (e.g., overpayment delivery systems, monthly reporting, work program review procedures, error reduction, and bank matches). Questions from States on these materials were answered directly by OFA staff. Also, to help States more quickly and effectively implement the mandatory AFDC legislative provisions of the Omnibus Budget Reconcilation Act (1981) and the Deficit Reduction Act (1984), Federal staff prepared training guides that were used by States to train their income maintenance staffs.

Item #17

Question:

When does the Department expect to release the results of the study, begun in 1978, to determine whether factors beyond a State's control contribute to the error rates? What are the findings of this study?

Answer:

The report to which you refer is not yet completed. However, the question you raise, as to whether factors beyond a State's control contribute to the error rate, has been intensively researched within the Department. Additionally, the Cost-Effectiveness Study, done under contract by Touche Ross and Company in 1984, also addresses this question. This report has been provided to Subcommittee staff for reference.

All indicators show that adjustments to error rate tolerances would be inappropriate for the following reasons:

- o There is no generally accepted procedure for making adjustments in the error rate tolerances.
- o Though certain socio-economic factors may affect error rates to a small extent, there are large interstate variations in error rates, even controlling for these factors. No clear, quantifiable correlations can be made between error rates and variable factors.
- o The variables may go in either direction, often offsetting each other, and their impact is neither predictable nor consistent.
- o There are many administrative actions and error reduction techniques, completely within the control of a State, which would have a pronounced effect upon a State's error rate if they were properly implemented. The Cost-Effectiveness Study, for example, clearly outlines a number of these.
- o Finally, we believe that the three percent tolerance level set in current law is realistic, makes proper allowance for possible variables and is fully attainable through concerted State management attention.

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